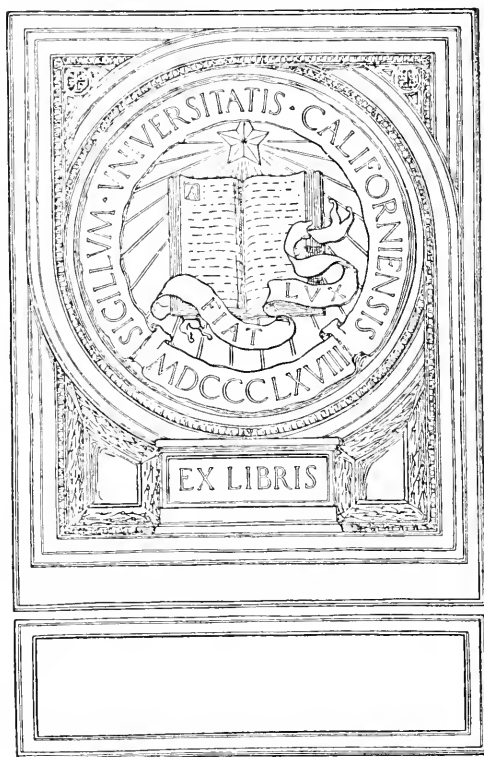


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RAILWAY PROBLEMS IN CHINA

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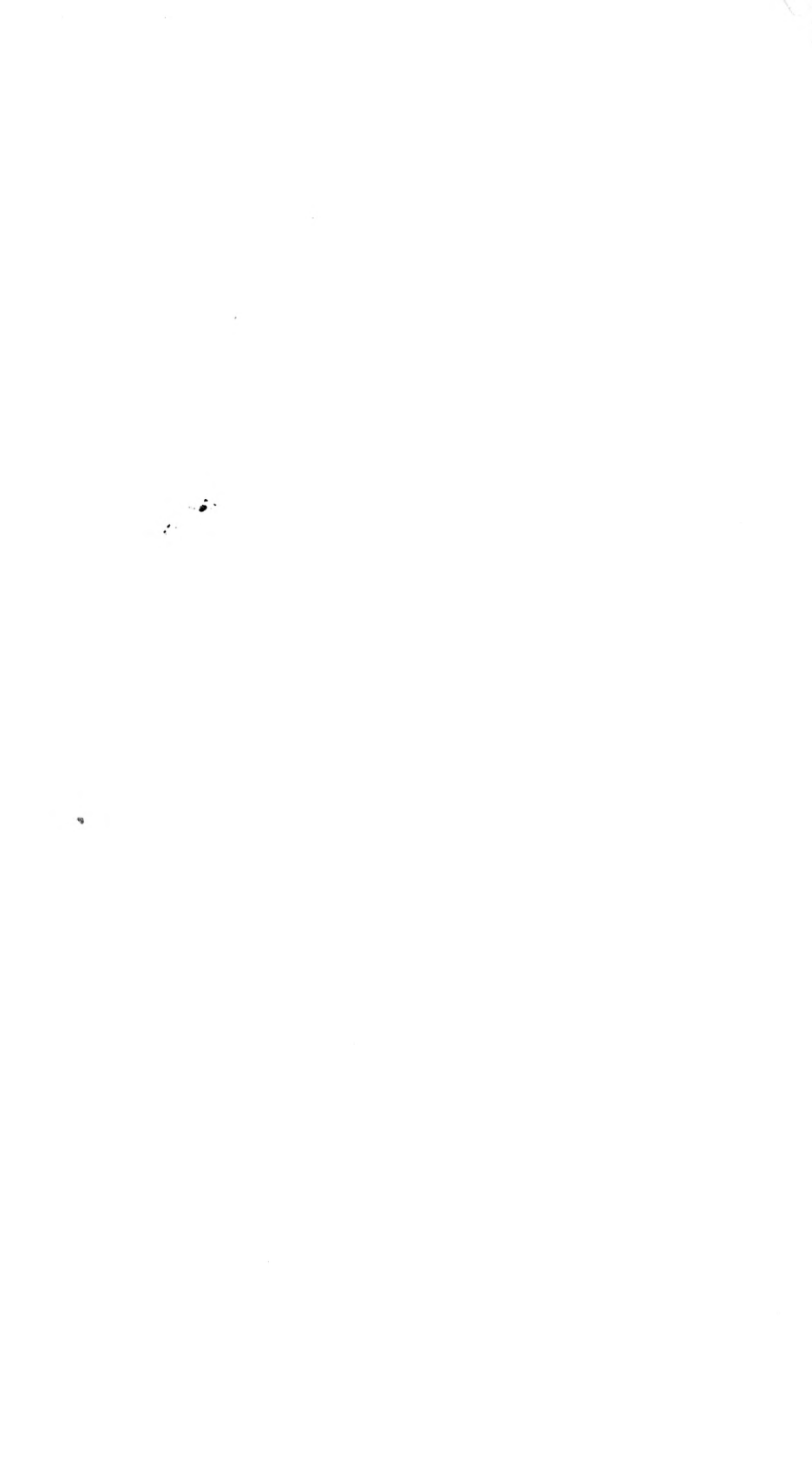
MONGTON CHIH HSU, B. S., M. A.

SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY
IN THE
FACULTY OF POLITICAL SCIENCE
COLUMBIA UNIVERSITY

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NEW YORK
1915



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PREFACE

THE purpose of this work is to present the important economic and political problems of railway development in China. In the body of the treatise no attempt has been made to set forth, in detail, the technical and administrative questions involved in the work of building and operating railways. In view of the fact that most of the railways in China have been built with foreign capital, the author has attempted to analyze carefully the railway loan agreements in order to throw some light upon the present status of railway management and construction. As the railway has recently occupied the center of interest in the internal and foreign politics in the country, a great part of the material of the treatise is, therefore, focussed upon the political phases of the railway situation.

The author desires to acknowledge his indebtedness to Professor Edwin R. A. Seligman for his invaluable instruction and advice in the conduct of the work. Acknowledgements are due also to Professor H. R. Mussey, who kindly read the treatise in proof and made many useful criticisms and suggestions, and to Mr. Hugh W. Robertson for his assistance in adapting the manuscript for the press.

M. C. H.

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CONTENTS

CHAPTER I

PAGE

INTRODUCTION	II
------------------------	----

FIRST PERIOD

CHAPTER II

A DISCOURAGING BEGINNING	19
------------------------------------	----

SECOND PERIOD

CHAPTER III

THE STRUGGLE FOR RAILWAY CONCESSIONS

i. Foreign Political and Strategic Railways	28
ii. Railways Granted to Foreign Capitalists	34
iii. Railway Spheres of Interest	45

CHAPTER IV

THE FOREIGN RAILWAYS

i. The Chinese Eastern Railway	52
ii. The Shantung Railway	56
iii. The Yunnan Railway	58

CHAPTER V

RAILWAYS BUILT WITH FOREIGN CAPITAL

A. The British Interests:	
i. The Chinese Government Railways of North China	65
ii. The Shanghai-Nanking Railway	69
iii. The Tao-Ching Railway	71
B. The Belgian, French and Russian Interests:	
i. The Peking-Hankow Railway	74
235]	7

	PAGE
ii. The Peinlo Railway	78
iii. The Cheng-Tai Railway	81
C. The American Interests.	

THIRD PERIOD

CHAPTER VI

PROVINCIAL AND PRIVATE ENTERPRISES

i. The Hsinning Railway	92
ii. The Kiukiang-Nanchang Railway	93
iii. The Fukien Railway	94
iv. The Shanghai-Hangchow-Ningpo Railway	95
v. The Szechuan-Hankow Railway	99

CHAPTER VII

THE RAILWAYS BUILT BY THE CHINESE GOVERNMENT	103
--	-----

CHAPTER VIII

NATIONALIZATION OF RAILWAYS

i. The Conflicts of Interests	108
ii. The Government's Railway Policy	120

CHAPTER IX

INTERNATIONAL CO-OPERATION

i. The Canton-Kowloon Railway	133
ii. The Tientsin-Pukow Railway	135
iii. The Hukuang Railways	140
iv. The Lung-Tsung-U-Hai Railway	154
v. The Sinyang-Pukow Railway	157
vi. The Shasi-Shingyifu Railway	159

CHAPTER X

THE MANCHURIAN RAILWAY PROBLEMS	163
---	-----

CHAPTER XI

CONCLUSION	176
----------------------	-----

APPROXIMATE EQUIVALENTS OF CHINESE CURRENCY,
WEIGHTS AND MEASURES

i.—*Money*

Until the new National Coinage Act was promulgated by a Presidential Mandate on Feb. 27, 1914, the monetary unit commonly used was the "tael." It fluctuated greatly in value. The Haikwan (customs) tael was not a coin but a weight in silver by means of which duties were paid to the Maritime Customs. The average exchange value of the Haikwan tael during recent years has been as follows: 1907, 79 cents gold; 1908, 65 cents; 1909, 63 cents; 1910, 66 cents; 1912, 67 cents.

In June, 1912, one Haikwan tael =

2s. 9d.

3.47 francs.

2.81 marks.

0.67 gold dollar.

1.50 yen (Japanese).

1.50 Mexican dollar.

ii.—*Weights*

1 catty = $1\frac{1}{3}$ lbs. or 604.53 grammes.

1 picul = $133\frac{1}{3}$ lbs. or 60.453 kilogrammes.

iii.—*Length*

1 ch'ih = 14.1 inches or 0.358 metres.

1 li = about one-third of a mile (or theoretically 2,115 feet or two-fifths of a mile).

iv.—*Area*

1 mow (Shanghai) = one-sixth of an English acre.

v.—*Capacity*

1 tow (for tribute) = 629 cubic inches (10.31 litres).

CHAPTER I

INTRODUCTION

IN a country so vast in territory and so dense in population as China it is natural that arterial communication is necessary. Serious efforts have been made by China's rulers to connect the four quarters of the country by both land and water routes. Therefore, long before the introduction of the steamer and railroad into China, intercommunication had already taken place between the different parts of the country, even those most remote. In olden times when the country was flourishing long canals and grand highways were usually kept in good order. Until very recently, however, waterways and river embankments had been neglected and repairs on roads had been practically abandoned. Now they are almost impassable. At the present there are still many old trade routes in the country and owing to the small mileage of railroads in China old methods of communication and transportation are still maintained.

Land Transportation. The chief means for conveying travelers on land are the sedan chair, the mule litter, the cart (used only in the North), horses, mules and donkeys. The horse is most expeditious, while the sedan chair is most comfortable but most expensive. Commodities are carried by barrows (sometimes also used for travelers and mostly used in the South), pack horses, mules, donkeys, camels and for short distance, oxen. A horse or mule will carry 240 to 320 pounds. Camels will carry still more, but are used

only in the North. A wheelbarrow will carry, as a rule, 180 to 300 "catties" (240 to 400 pounds), and will make about 16 miles a day. Carts can carry more than these wheelbarrows.

There are many trade routes on land. The principal ones are those which connect the big cities, and these cities, in turn, with the capital. From Peking several highways branch in various directions leading to Mongolia, Manchuria, Central Asia, the west and the southwestern parts of China proper. The trade route from Peking to Manchuria has been recently displaced by a railroad. It takes months to travel overland from Peking to the northern, western and southern corners of the country. From Nankow Pass, north of Peking, there is a caravan route extending to the North and Northwest. Journeys are generally divided into stages of about thirty miles each. In the South the ordinary road is a mere path generally defined by neither ditches nor hedges, winding through the paddy fields or over the uplands. In the North, where carts are used, it is a common thing to see a new track cut right across a field of growing wheat in spite of the efforts of the owner to prevent it. There are traces in many places of ancient pavements, but these have almost wholly disappeared, and the road is simply a bank of earth.

Water Transportation. Nowadays a number of steamboat companies are organized and run steamers regularly on the navigable rivers, canals and lakes, and even along the sea coast. Where steam is prohibited, native "slipper" boats, house boats and junks of various sizes are used. For coast and sea-going work, junks of large and strong proportions with large sails are still occasionally seen.

The Yangtze, which is navigable for some 2000 miles, the Hwai, the Han, the West and the Peiho rivers are great arteries of commerce. The Grand Canal is now practically

worthless for transportation from the South to the North, although it was once the chief route of traffic. Steam navigation along the coast takes its place now. Some sections of the Grand Canal and the Hoangho are still useful but only for local traffic.

In the maritime provinces and the Yangtsze Valley waterways are numerous. The perfect network of waterways, partly natural and partly artificial, in Kiangsu, in connection with the Yangtsze River and the Grand Canal, furnishes cheap and comfortable communication with all parts of that province. There are lakes of considerable size by which communication is carried on with the different provinces in Central China. The Wuhu, the Taihu, the Poyang, the Tungting and other lakes, with the waterways branching in various directions from them, furnish good water communication with the adjoining regions.

The costs of travel and of freightage vary from year to year with the means of transportation, with the seasons of the year and differ, also, in different parts of the country. Land transportation is usually, as in other countries, more expensive than water transportation. Competition, however, is a decisive factor. No matter whether it be between the same kind or different kinds of conveyance, or between water and land routes, where there is keen competition, passenger tariffs and freight rates are usually much lower.

Over these trade routes and by the old means of transportation mentioned above, Chinese produce and merchandise were carried from one part to another of the country long before the Occidental world became civilized. But as China, owing to her geographical position and her endowment of abundant resources for self-support was absolutely cut off from the rest of the world for so long a time past, no impetus was given to her to develop fully her systems

of communication. On the contrary, internal communication has been gradually falling into greater and greater neglect. The defective condition of communication kills trade on its way inland and paralyzes the authority of Peking a few hundred miles from the capital. The growing weakness of the Peking Government has, for a long time past, been becoming more and more apparent to the people and the officials, whose confidence had been completely shaken, even before the shock of recent political events. Absence of communication means failure of control, lack of power, want of grip, causes which chiefly explain the frequent occurrence of rebellions.

On the other hand, foreign nations have, one after another, closed in upon China both by land and by sea. The expansion of foreign commerce, the lust for territorial acquisition and the intense international struggle for power and influence throughout the world, animated by modern national imperialism, have naturally resulted in demands for concessions of territories for coal stations and commercial ports and for extra-territorial jurisdiction over the places where citizens or subjects of the respective countries reside. Above all, they have demanded concessions of rights for construction and even control of railways in order to increase their own resources through the absorption or exploitation of the undeveloped but vast and wealthy realm of the Celestial Empire. Several foreign nations, principally Russia, Germany, France, Great Britain and later, Japan, have taken an aggressive part in this movement. Concession after concession was forced out of the hands of the Peking Government. Railway concessions, standing above all others in value, have been and are still most eagerly sought and retained because railways can be used politically to strengthen the concessionaires' hold on China as well as to develop commercially their concessions of

mines and other enterprises. In modern times the railway is the best and most effective instrument for colonization and for accomplishing the policy of imperial expansion. It is no wonder, therefore, that international politics in China are mostly railway politics.

Keeping this in mind, one will not be surprised to find that a foreign railroad loan in China is quite different from that in the United States and in many other countries. In the United States or elsewhere a railroad loan raised abroad is commonly regarded as a commercial transaction between two parties, while in China it means a political issue between two or more nations. To present the different important phases of the railway problems in China, it is advisable, however, to trace the various stages of their development in connection with the local growth of the railway itself. The history of railway development in China may be divided into three periods:

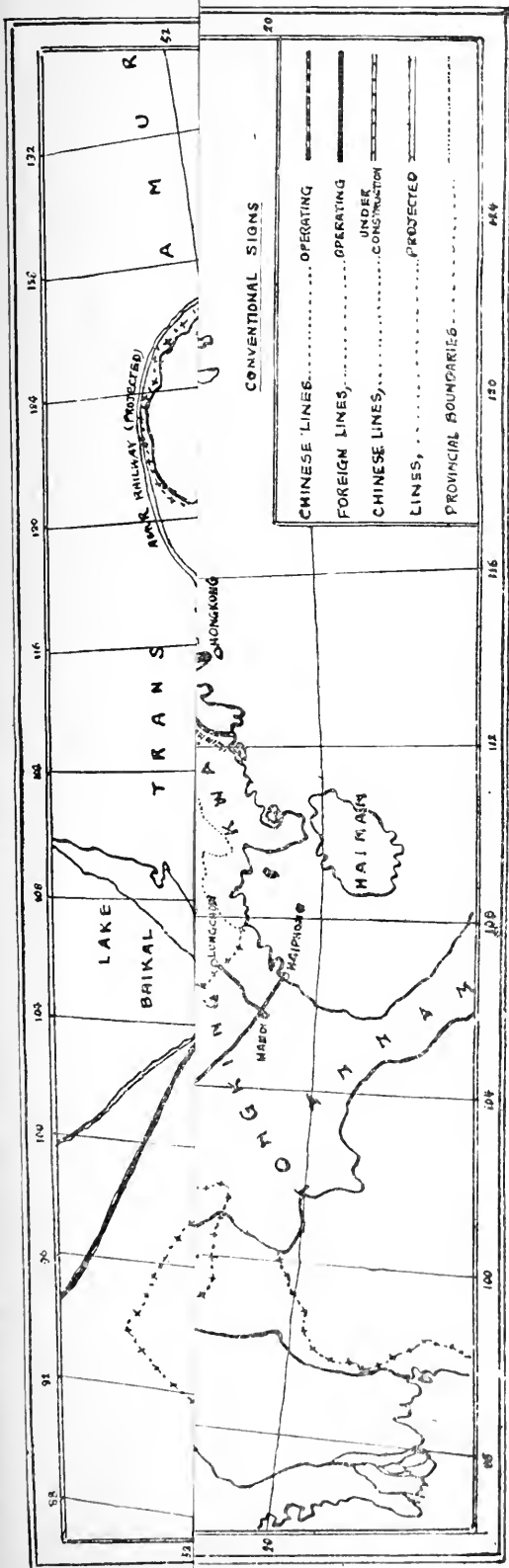
(1). The first period began in 1863 and ended in 1894. At the very beginning the first attempt to introduce the "iron highway" into China was discouraging, not unlike what had been experienced in the United States, England and elsewhere, owing to the opposition of the conservative class of the people. Later on, however, a small number of influential and enlightened officials, who realized the importance of the railway to the prosperity of the country, succeeded, in the face of manifold obstacles and in spite of endless discouragement, in creating the first instalment of the railway system now known as the Chinese Government Railway of North China.

(2). The second period, extending from 1895 to 1905, was marked by the "Battle for Concessions" in which the struggle for the right of way for railway construction and for financing was the most notable feature. Before this period no railway concession had been granted to foreigners.

After 1895 they were given so many concessions that the Boxer Trouble was practically precipitated as a result. In this period we find that notorious terms were stipulated in railway loan agreements.

(3). The third period, commencing during the Russo-Japanese War and extending to the present, is characterized by the appearance of native private enterprises, the conflict of interests between the provincial companies and the Central Government due to the adoption of the Nationalization Policy, the financial combination of some foreign syndicates, and the settlement of the question of *control* to a certain extent in regard to loan funds. During this period railway loans were contracted on more favorable terms than in the last period.

RAILWAY MAP OF CHINA



This is a detailed map of China and its surrounding regions, including Mongolia, Tibet, and Manchuria. The map is oriented with North at the top. It shows major cities, rivers, and administrative boundaries. A legend in the bottom right corner defines line styles for Chinese lines, foreign lines, and provincial boundaries.

Legend:

- CHINESE LINES..... OPERATING
- FOREIGN LINES..... OPERATING
- CHINESE LINES..... UNDER CONSTRUCTION
- LINES..... PROPOSED
- PROVINCIAL BOUNDARIES.....

FIRST PERIOD

CHAPTER II

A DISCOURAGING BEGINNING

IN 1863, twenty-seven foreign firms sent a petition to Li Hung-chang, then governor of Kiangsu, applying for the concession of the right to establish a line between Soochow and Shanghai. Their petition, however, was received with decided disapprobation, and the scheme was finally abandoned. At about the same time, Sir Macdonald Stephenson drew up a comprehensive scheme ¹ for railway construction in China and presented it to the Manchu Government. His document for some reason was pigeon-holed.

The next move emanated from Shanghai. On the application of Messrs. Jardine, Matheson & Co. to construct an ordinary road from Shanghai to Woosung, about twelve miles down the Whangpoo River, a permit was issued in which it had been made particularly plain upon both sides that only animals could be used for motive power. The employment of steam was specifically forbidden. But in 1875 when the road was completed, the company, ignoring the protest of the natives, laid down upon it a two-foot-six-

¹ *Railways in China*, by Sir Macdonald Stephenson, 1864. Stephenson took Hankow as a starting-point and proposed to construct lines eastward to Shanghai and westward through the provinces of Yunnan and Szechuen to India. While a line was to run from Hankow southward to Canton, another line from Chinkiang to Peking *via* Tientsin was projected. It was also proposed to connect Ningpo with Shanghai, and to carry a line from Soochow to the province of Fukien. In addition to these lines a connection between Canton and the projected line to India was suggested.

inch gauge railway and used a locomotive to haul the cars. The people in the neighborhood of the line became greatly excited. Petition after petition was sent in to the provincial authorities asking that the company keep its promise. It was not until a laborer was run over and killed by the locomotive that the Central Government directed the provincial authorities to have the concession canceled. After some troublesome diplomatic negotiations this first railway was repurchased by China in 1877. The closing chapter of the history of this enterprise points to the tearing-up of the track and the shipment of the rolling stock, rails and sleepers, to the Island of Formosa. The wretchedly advised course of action taken by the company could only delay the introduction of the railway into China for a short time, because a few years later a successful attempt to introduce the "iron horse" was made in the North.

In 1878, Li Hung-chang, now Viceroy of Chihli, became interested with Mr. Tong King-sing in establishing a colliery in Tangshan. The Chinese Engineering and Mining Company was then formed. From this point to Pehtang, the nearest point for shipping coal by water routes, was about thirty miles. The question of transportation became vital to the success of the company. A canal was then constructed from the colliery to Lutai, the nearest point on the Pehtang River. There were seven miles between Hsukochung, on the end of the canal, and the colliery; and to cover this distance a mule tramway of standard gauge was built in 1880 after a hard fight by the resident engineer, Mr. C. W. Kinder. After the completion of this tramway a determined effort was made to introduce the railroad into China. Without consulting Peking, Mr. Kinder built a locomotive, christened "The Rocket of China," on June 9, 1881. The locomotive was made out of old iron and steel picked up at the mines and a portable

winding engine. After inducing the authorities to withdraw their objection to its use Mr. Kinder put the "Rocket" into commission on construction work.

The initial venture of the railway from Hsukochung was a success and two additional locomotives were secured in 1882. Mr. Kinder then began to urge the extension of the tramway to Lutai and succeeded with the assistance of Viceroy Li Hung-chang, now impressed with the value of the railway. The Kaiping Railway Company was then formed with a capital of about \$500,000 (Mex.) to take over the tramway and carry out the construction of the extension. Dr. Wu Ting-fang was appointed to manage the company. Work was begun at Hsukochung in 1886 and six months later it was completed. At the same time some rolling stock, including an American locomotive and forty ten-ton coal cars, was purchased from the United States.

The experiments of these two initial railroads had, without doubt, an important educational effect. This can be seen in some of the memorials¹ presented to the Throne by some of the learned officials. The testamentary declaration in favor of railroads, warships and other foreign appliances, as an essential means of enabling China to keep abreast of other civilized nations, written by Viceroy Tso Tsung-tang, the suppressor of the Mohammedan rebellion in Kansuh and Turkestan, helped greatly to hasten the acknowledgment of the importance of Chinese railways.

But the chief impulse which led to the official acceptance of the modern system of transportation, as an institution, was supplied by the war with France in 1884. The difficulty of sending troops to Tongking convinced the Government of its essential value as a means of military transport.

¹See *Kuang-su Chong-yau* (The Emperor Kuang-su's State Papers), vols. xi-xv, inclusive.

By 1887 the Kaiping line was completed to Lutai; and Li Hung-chang had a memorial before the Imperial authorities urging the extension of the line to Tongku and on to Tientsin on the plea that such a road was a military necessity and would tend to the better protection of the empire from invasion. Meanwhile, the Board of Admiralty, stimulated by the Marquis Tseng, also presented a memorial to the Throne, in which they proposed the construction of a railway from Taku to Tientsin and Shanhaikwan, for the purpose of facilitating the mobilization of troops in those places and also for the transportation of coal which they described as "the life and the pulse of the navy." These two memorials fortunately struck the right chord and the Empress Regent issued an edict¹ formally approving the construction of a railway in China. The name of the company was then changed to "China Railway Company" and a prospectus² was issued advertising for the subscription of Tls. 1,000,000, the Hongkong and Shanghai Banking Corporation being made bankers.³ It was, however, with great difficulty that the promoters succeeded in financing the scheme.

In April, 1888, the section to Tongku was completed; in August, Tientsin was reached. In 1890, the section to the east of Tientsin was completed to Kuyeh. By 1891 the extension to Shanhaikwan was authorized and the Chinese Imperial Railway Administration was formed with Mr. Kinder as Engineer-in-Chief to carry on the work which was completed in 1894.

Besides the above actual progress, other projects were ad-

¹ For full text of edict, see Appendix C in R. S. Grundy's *China Past and Present*, London, 1895.

² See Appendix D in the same book, and *U. S. Consular Reports*, vol. xxiii, no. 81, p. 66.

³ The bankers were Englishmen and the bank is a British institution.

vocated by quite a number of officials. In February, 1889, the Viceroys and Governors throughout the Empire were commanded to advise the Throne on the subject of railways. Two of these memorials¹ were received with great attention, namely, those of Liu Ming Chuan (Governor of Formosa) and Chang Chih-tung (Viceroy of Liang Kuang). The former advocated strongly the advisability of continuing the Tongku-Tientsin line to Tungchow, while the latter urged the construction of a trunk line from Lukowchiao (a village near Peking) to Hankow, an important industrial and commercial center on the Yangtze River. The Tungchow project was, however, strongly opposed by the reactionary party who maintained that as railways would facilitate the transport of foreign troops and as Tungchow was only twelve miles from Peking the capital would be dangerously exposed to foreign attack in case of an invasion. This opposition was carried to such an extreme degree that it not only blocked the decree but incited a riot of the junk owners whose business on the Peiho River had suffered more or less by the competition of the railway. The riot was not quelled until the Viceroy ordered the destruction of the bridge connecting the Foreign Settlement and South Tientsin, thus placating the junk owners by facilitating the shipping demand.

Meanwhile permission had been granted to continue the railway beyond the Great Wall at Shanhaikwan. At the outbreak of the war with Japan in 1894, the line had been extended to Chung-hou-so, forty miles beyond Shanhaikwan. The line between Tientsin and Shanhaikwan, however, a distance of 174 miles, was the only one in operation in this period. The Chung-hou-so extension was still under construction when the war broke out and several

¹ *Kuang-su Chong-yau*, vol. xv, leaves 9-12 and 12-15.

branch lines had been projected. Surveys were also made 160 miles from Chung-hou-so to Kirin, the center of Manchuria. During the war with Japan work on the road was naturally interrupted suddenly and was resumed afterwards only by overcoming much political opposition and many financial difficulties. The close of the war marks the close of the first period of railroad development in China.

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SECOND PERIOD

CHAPTER III

THE STRUGGLE FOR RAILWAY CONCESSIONS

THROUGHOUT this period railway politics took a very important and significant part in the campaign of international politics played in China. The struggle for railway concessions came hand in hand with the "Battle for Concessions"¹ waged from 1896 to 1900. The latter designates the occupation of territory under the guise of lease, the securing of rights or grants for the working of mines, the construction and management of railways, and the enjoyment of special or exclusive financial and commercial privileges in China, either by the interested foreign governments separately or in combination, or by the foreign syndicates backed by their respective governments to carry out a certain design, political, military, commercial or otherwise. It is evident, therefore, that in order to clear up the complicated position taken up by the railway in this "Battle," it is necessary to touch upon some of the influences and causes, the development and result of which were utterly unexpected.

Railway concession has occupied many volumes of diplomatic correspondence found in the Colored Books of the different governments, especially those published from 1897 to 1901. In the "Battle for Concessions" the private speculator in railways appeared on the scene to worry the Chinese Government, but behind him, in addition, was the

¹ According to Lord Salisbury's description; see *British Blue Book, China Affairs*, no. 1, 1899, dispatch no. 232.

whole diplomatic force of his country. Later, the bankers, encouraged by their governments to finance railway construction in those regions which the latter had marked out as their sphere of political influence or of pecuniary interest, secured for the money market the issues of loans and for the trade of their respective countries orders for the materials required.

The subject is very complex and rapidly changing in different phases. It is only possible to indicate briefly the essential points which have an intimate relation to the railway development of China. Let us now, first of all, trace the causes and events which, being political and strategical on the one hand and financial and commercial on the other, led to the struggle for railway concessions and to the subsequent controversies and troubles between China and the Powers, and even dissension among the Powers themselves. The railways given away by China under the circumstances created by these events and causes may be accordingly divided into two distinct categories, according to the purposes of their promoters, *vis.*: (1) those granted for political and strategical reasons; (2) those granted for commercial or capitalistic reasons.

Foreign Political and Strategical Railways

When our troops were defeated by the Japanese in the autumn of 1894, the policy of the Powers with respect to China was consequently changed. Russia headed the way and prepared to play an important part in the Far East by the construction of the Trans-Siberian Railway. Long before the Chino-Japanese War, Russia had cherished the idea of constructing a railroad from the Urals to the Pacific coast,¹ with the object of strengthening her strate-

¹ Count Monravierff Amurski, the Czar's Minister of Foreign Affairs, after having annexed the province of Amur to Russia, favored the idea

gical position and political influence in the Far East. Russia's first attempt was to seize one of the Korean ports, free from the grip of ice, as a terminus, but this attempt failed owing to England's objection.¹ In May, 1891, the Siberian Railroad was officially started by the Czarevitch, now the Czar of Russia, at Vladivostock. The Chino-Japanese War had given Russia the opportunity to secure an ice-free port in the territory of China.

Under the terms of the peace treaty of Shimonoseki, negotiated with Japan and signed April 17, 1895, by Li Hung-chang, on behalf of the Manchu Court, China was compelled to recognize the independence of Korea, and to cede to Japan Port Arthur in the Liaotung Peninsula and Weihaiwei in the Shantung province in addition to the islands of Formosa and the Pescadores. In the Liaotung Convention, November 8, 1895, the Mikado's Government, under the pressure exerted by Russia, Germany and France combined, retroceded Port Arthur and Weihaiwei to China, obtaining as compensation a further sum of 30,000,000 taels in addition to the original war indemnity of 200,000,000 taels. The financial difficulties of the Chinese Government in paying off the first instalment of the indemnity gave opportunities to the foreign Powers to obtain influence in the councils of the Manchu Empire. Accordingly, the European Powers competed for the privilege of supplying the monetary needs of China.

The Czar's Minister of Finance, M. de Witte, devised a plan of making an overland road from Russia to the Far East, which was set out in Voltaire's letter dispatched to Count Schervorof, dated Ferney, June 11, 1761.

¹ Before 1885 Russia intended to seize Wensan. In anticipation of such action, England, meanwhile, seized Port Hamilton, a Korean island. In February, 1887, England evacuated it on the promise of Russia that she would not take any Korean territory.

remarkable but infamous scheme of making the Russian Government China's guarantor so as to enable China to float a loan of 400,000,000 francs at 4 per cent, issued at 94, in Paris. In return, as compensation for her friendly office, Russia made a treaty with China—the Cassini Convention—whereby Russia secured the privilege of constructing a railroad across Manchuria to connect her Siberian and Ussuri System. This concession marked the beginning of the initial struggle for railway concessions in China, which had hitherto been pursued somewhat more on political than commercial lines. This was also the first step toward what has been called "Russia's pacific conquest of China." And thus the tragic curtain to the "Battle for Concessions" was lifted.

France was not inactive in demanding something for her services to China. On June 20, 1895, a treaty with France was signed by China, stipulating, besides the extension of the frontier between China and Indo-China and the exploitation of mines situated in the Province of Yunnan and other resources, that the military railways already built between Phulangthuong and Langson in Tongking, or other railroads to be constructed in Annam might, after a mutual understanding, be extended into Chinese territory. In 1897, an exchange of notes took place between the French Minister in Peking and the Tsung-li Yamen¹ reminding China of her obligations.²

Great Britain now wanted to act in her turn. On February 4, 1897, she made a treaty with China, in which, besides many privileges granted to her, China allowed an im-

¹ The Foreign Office of China, the first of its kind found in the history of China, established Jan. 31, 1861.

² See *Documents Diplomatiques*, China; issued by the Ministère des Affaires Étrangères, published by the Paris Imprimerie Nationale; vols. of the years 1894 to 1898.

portant modification on the Burmese frontier. At the end of the same year, China, having been obliged to liquidate the Japanese War Indemnity, negotiated a loan with some British financial agents. The security of the loan was to be the native and maritime customs, the salt tax and Likin (an internal merchandise tax). But the British Government was not satisfied with this ample and sufficient security and demanded certain concessions in addition. These included the railway from Burma to Yunnan, a guarantee of the non-alienation of the Yangtze region to any other Power, greater freedom of internal trade with the abolition of Likin on foreign goods in the treaty ports, and finally the opening of Talienwan and Nanning to foreign trade. Russia protested against the loan on the ground that the balance of influence would be upset thereby, while France objected to the Railway clauses and the opening of Nanning. Russia also offered an alternative loan on easier terms to China. But the British exerted such great pressure upon Peking that the Central Government had no way to escape and was forced to yield. The loan was finally arranged under Anglo-German auspices with the Likin as security, which was to be under the control of the Inspector-General of Maritime Customs, an Englishman. At the same time China had to grant in recompense all the British demands.¹

From the above lesson China learned to her great cost that the supposed friendly offices of the foreigner might be just as dangerous to her national honor and integral existence as his open hostility. ✓

But China was not yet at the end of her troubles. In 1897 when two German priests were murdered by a mob in Shantung, the Kaiser Wilhelm's Admiral without sending an ultimatum or any notification to Emperor Kuang-su seized

¹ See *British Blue Book, China*, no. 1, 1899, pp. 12-30.

German
Kiaochow Bay, town and district, and the German Government refused to evacuate until China was hectorred into agreeing, in a formal convention on March 8, 1898, to compensation to the families of the murdered missionaries, an amount to reimburse Germany for the cost of occupation, the degradation of the Governor of Shantung, the ninety-nine years' lease of the country occupied, and the granting of mining, railway and exclusive financial privileges throughout the whole valuable province where Confucius, the Greatest Teacher of China, was born. By virtue of this convention Germany obtained the right to build a triangular railway system in Shantung. German capitalists also obtained the right of preference to find capital for any scheme for the development of Shantung made by the Chinese Government or citizens, and German-made materials were guaranteed a preference over all others.¹

Russia
The recognition of the occupation of Kiaochow and the concessions of railways and mines to Germany accelerated the aggressive actions of the other covetous Powers. Russia made a more significant advance from North Manchuria and on March 27, 1898, secured a twenty-five years' lease of Port Arthur and Talienwan, and compelled the Manchu Court to permit the Chinese Eastern Railway Company² to extend a branch line from a certain point (Harbin) on the main line to these two ports.

As Russia, Germany and Great Britain had been granted important concessions in the North and the Yangtsze Valley, France, in order to balance her political and commercial influences in the Far East, occupied in April Kwongchowwan, in the Gulf of Tongking, and secured the right to

¹ Parker (E. H.), "The German Sphere of Influence in China," in *United Service Magazine*, 1899, vol. cxli, pp. 172-186.

² Cf. *infra*, p. 52.

construct a railway to Yunnan from the Tongking frontier and a promise not to alienate any territory in the three provinces of Kwangtung, Kwangsi and Yunnan.¹

Next, as the balance of power in the Gulf of Pechili was materially altered by the surrender of Port Arthur to Russia, the Marquis of Salisbury, then head of the British Foreign Office, sent a British fleet from Hongkong to the Gulf and demanded Weihaiwei from China. In June, Kowloon including Mirs Bay was also ceded to England. Meanwhile, Japan also demanded the non-alienation of Fukien province.

These disgraceful events in the history of China are briefly enumerated here in order to show that the so-called "Spheres of Influence," or the "Spheres of Interest" ² were roughly established at this stage of the struggle with regard especially to the concessions of railways. The policy of securing a sphere of influence or of interest was pursued without any regard to China's claim to rank as a sovereign nation.

And thus we see that the four systems of railway, *i. e.*, the Russian system in Manchuria, the German system in Shantung, the French system in Yunnan and Kwangsi, and the British system connecting Burma with Yunnan and Szechuan all owe their origins to political and strategical rather than commercial aspirations. They are singled out here that they may not be confused with other roads which belong to the second category.

The Russian, German and French groups were completed. They are to all intents and purposes the property of the three countries named, with the exception of that of the

¹ See volumes of the years 1898-1901 of the *Documents Diplomatiques*, China.

² For definition of these terms see Reinsch, *World Politics* (New York, 1912), pp. 61 and 113.

Germans which may go into the pocket of the Mikado after the present World War. China has no control over them. Her sovereign rights are encroached upon in all respects. How China shall deal with them, or rather how China shall get them back, is a question which is serious in character and the solution of which depends upon future circumstances and most important of all, upon the material strength China will have in the future.

The British system, however, was only projected and surveyed in 1899. Since then no definite agreement has yet been reached. Recently several surveys have been made but no further work has been done as the mountains and valleys all run crosswise to the projected route, which will require, consequently, considerable labor in construction.

Railways granted to Foreign Capitalists

The railways of the second category were initiated by China to an extent and were more or less political in nature although financial and commercial considerations were taken up seriously. These originated in a very unpleasant manner. The disastrous result of the Chino-Japanese War was a profound surprise and humiliation to China and it had left behind it strong progressive tendencies in the bosoms of many of China's patriotic children. Many of the enlightened officials realized that the want of means of rapid transport had prevented China from using efficiently her troops stationed in different parts of the country, and they grasped the fact that the remedy for the defeat lay in the construction of railways. Among them was Chang Chih-tung, now transferred to take up the Viceroyship of Hukuang. Viceroy Chang petitioned the Throne to authorize the establishment of a company which should raise capital in China and undertake the construction of all im-

portant trunk roads, retaining full control in the hands of China. He suggested that the upper section of the trunk line running from Lukouchiao to Hankow should be first constructed and this section when completed be extended to Canton. He further stated that a great trunk line putting the metropolis in quick communication with the several central and southern provinces was not only commercially but strategically necessary.¹ In February, 1896, a Chinese company was formed with a capital fixed at thirty million taels. The failure to raise capital at home, however, fettered the hands of Chang Chih-tung and his followers and ultimately forced the Government to admit foreign capital.

A Belgian syndicate, *La Société d'Etude des Chemins de fer en Chine*, appeared in the scene, and, in May 1897, after underbidding a group of American financiers and another of British capitalists, obtained the contract for the construction of the line.² When it became known that the syndicate was assisted at the Peking Court by the ministers of Russia and France and also by the influence of the Russo-Chinese Bank—this meant to the English and Germans that a Russian move to bring Russian influence to the very heart of the Yangtsze Valley and Shantung was hidden under the Belgian syndicate—the British and German ministers protested very violently, basing their remonstrances on the “most favored nation” clause of their respective treaties. The British Government, which was emphatic in its remonstrance and demands, ordered a naval demonstration on the China Sea and made the Belgian concession a pretext for demanding from China important privileges and railway concessions.

¹ See *British Blue Book*, China Affairs, no. 1 (1899), pp. 87-89 (translation).

² *U. S. Monthly Consular Reports*, 1898, vol. lviii, no. 218.

In 1898, Sir Claude MacDonald succeeded in exacting from China a string of concessions for the construction of various railways in the Yangtze river basin, in South China and in the southwestern part of China, and with the co-operation of the Kaiser's minister secured the concession of the Tientsin-Chinkiang line. Meanwhile, the Peking Syndicate,¹ an Anglo-Italian combination, obtained a grant of extensive mining and railway rights in the Province of Shansi and that part of Honan north of the Yellow River, while the Russo-Chinese Bank secured a concession for a line from Chingtingfu to Taiyuanfu, the capital city of Shansi. The French were also active in the Chinese railway extensions, for in September 1899, the official agreement between China and France for the Lungchow-Nanning railway was signed in Peking.

After having experienced various troubles with the foreigners, the Government became anxious for the future of the concessions granted, and decided to grant away its railways with more carefulness thereafter. On December 13, 1898, the Tsung-li Yamen, in collaboration with the Board of Mines and Railways,² memorialized the Throne to the effect that "with the exception of the trunk and branch lines already arranged for and sanctioned, the construction of which will be proceeded with in order, no other lines shall be undertaken for the present."³ On the same day the Imperial holograph Rescript—"Let it be as proposed"—was received. The Yamen then transmitted copies of the

¹ The Peking Syndicate was registered in England on March 17, 1897, for the purpose of obtaining and developing concessions for mining, railway, and other industries in China.

² The board was created by the Imperial Edict of Aug. 1, 1898, to take charge of railway and mining matters in connection with foreign concessions.

³ *British Blue Book*, Affairs of China, no. 1 (1900), pp. 23-27.

Decree and Memorial to the Diplomatic Corps in Peking for their information. This was of course followed by a storm of protest from the latter. This time, however, the Government was able to resist and stuck to its decision. Thereafter the granting of railways to foreigners was stopped for a considerable number of years, although various applications were made from time to time by different syndicates.

According to the Memorial the reasons for this sudden stoppage of grants of right for railway construction were as follows:

1. Under the circumstances at that time it was necessary to discriminate between the urgency of the various proposed lines and the order in which they should be built, i. e., to undertake trunk lines first and branch lines next.

2. It was feared that there would be no material funds for the repayment of foreign debts, principal and interest, or to meet the cost of maintaining the lines.

At about the same time the Board of Mines and Railways drew up a set of "Regulations for Mines and Railways"¹ governing future enterprises so as to assert control over them and encourage Chinese to invest money in them. The essentials of the regulations may be summed up as follows:

1. Railways and mines can be managed by officials, by merchants, and by the two in combination.

2. The mines and railways of Manchuria, Shantung and Lungchow (in Kwangsi province) are affected by international relations and therefore will not be allowed to form precedents either for Chinese or foreigners.

3. Railways and mines must not be worked in combination. In future no more mining rights will be given along the routes. Mining companies are allowed, however, to

¹For full text of the regulations see translation given in *U. S. Monthly Consular Reports*, April, 1899.

construct branch railways to connect with the nearest waterways.

4. Only the Government board has the right to grant applications for mines and railways.

5. In the case of Chinese enterprises the companies must have a proportion of at least three-tenths of the shares owned by Chinese. When this proportion has been raised, foreigners may be invited to buy shares; but in borrowing foreign money the sanction of the board must first be asked. Foreign money-lenders must on the other hand request their minister to communicate with the Tsung-li Yamen, asking if the company is authorized to borrow. Money lent in any other way will be treated as a private loan. Should disputes arise between Chinese and foreign merchants, in connection with railway and mining enterprises, they must be settled by arbitration; the governments concerned will not interfere.

6. All such enterprises will be granted a monopoly for a fixed period, the duration of which will be determined by the circumstances of the case.

In addition to the above there are other minor points regulated which relate to the sanction of contracts and agreements, the procedure in regard to the acquiring of lands, the provision for a school of instruction by the companies, the qualification of promoters, the protection of foreign engineers and surveyors, rewards to Chinese entrepreneurs, the imposing of custom duties on railway traffic and mining produce, the proportion of profits to be paid to the Government, the examination of accounts, *etc.*

Later events show, however, that although these regulations were elaborately drafted and approved by the Government they could not be carried out satisfactorily, especially those relating to foreigners. The provisions regarding Chinese private enterprises could be enforced only to a cer-

tain extent. The high proportion of profits which was fixed at 40 per cent for railways and 25 per cent for mines has done nothing to encourage such enterprises. Lately, however, a new set of mining and railway regulations have been published giving more liberal terms to the private entrepreneurs.

At the time when the regulations for mines and railways were issued there were practically no Chinese private mining and railway enterprises. Naturally they were regarded by the foreigners as restrictions imposed upon them alone. Further diplomatic negotiations were carried on demanding modifications. To these the Government turned a deaf ear. As a matter of fact, up to that time over 6000 miles of railways, most of which were on paper, had been granted to the foreigners. The full list of railway concessions to all nationalities up to November 23, 1898, can best be seen in the following inclosures attached to a dispatch ¹ which was sent by Sir MacDonald to Lord Charles Beresford:

(INCLOSURE I)

Nationality	No.	Total length of line represented
British ²	9	2,800 miles ³
Russian.....	3	1,530 " ⁴
German ²	2	720 "
Belgian.....	1	750 "
French.....	3	420 "
American ²	1	300 "
		6,420 miles

¹ *British Blue Book*, "Affairs of China," no. 1 (1899), pp. 344-347.

² Half interests are reckoned at half the estimated length.

³ Including Hankow-Canton and Yunnan-Yangtze Railways.

⁴ Including Manchuria Railway (from Stretensk to Vladivostok).

(INCLOSURE 2)

Concessions other than British (up to Nov. 23, 1898)

RUSSIAN

(1). The Manchurian Railway Concession dates from 1896. The whole length from Stretensk on the main Siberian line to Vladivostock is estimated at 1,400 miles, of which about 1,000 will pass through Chinese territory.

The concession is purely strategical. The country traversed, though potentially rich, in great part is, and will be for a long time, sparsely populated, and the line cannot, in the near future at any rate, hope to pay its working expenses.

(2). The Port Arthur Agreement of March, 1898, arranges for the conclusion by Russia of a branch from the above line to Port Arthur or Talienwan. The length of the railway will be about 400 miles.

(3). The Russo-Chinese Bank has signed a contract for the construction of a branch line from Taiyuanfu to connect with the Lu-Han trunk lines near Chingting. Length approximately 130 miles.

FRENCH

The French possess the right to construct three lines; but beyond acquiring this right they have done nothing.

(1). From Tongking up the Red River Valley to Yunnanfu, say 290 miles.

The impression in French railway circles is that a railway through Yunnan will not pay expenses, and if any serious attempt is made to carry out the extension of the Tonquin system, it will be merely as a stepping-stone to Szechuan. Yet again, any pretensions that a railway from Yunnan to the Yangtze may have to rank as a commercial project have been pronounced against by every traveller in Central China.

(2). Langson-Lungchow-Nanning Railway. Length, about 100 miles. (There appears to be an alternative open to the French of going to Pésé instead of Nanning.)

(3). From Pakhoi inland, presumably to Nanning. Length, say 120 miles. The Tonquin press have pointed out that this line will benefit English commerce more than French. It will never, in my opinion, be built by the French.

GERMAN

(1). Kiao-Chow-Yichow-Tsinan line; length, 420 miles.

(2). Tientsin-Chinkiang line to be built by an Anglo-German Co. (See No. 3, British Concessions.)

BELGIAN

The Lu-Han or Peking-Hankow Railway. A Franco-Belgian Syndicate has secured the Concession for this, a trunk line of some 650 or 700 miles passing North and South through Chihli, Honan and Hupeh.

This railway is an old project born of Chang Chih-tung's objection to building lines near the coast, "lest they should facilitate the access of an enemy." Its prospects as a commercial enterprise are not considered so good as those of the rival Tientsin-Chinkiang line.

AMERICAN

The only railway in which America is at present interested is the trunk line projected from Hankow to Canton. (See British Concession no. 11).

(INCLOSURE 3)

Railway and other Concessions obtained by British Companies

I. SHANSI

The Peking Syndicate has acquired the "sole right to open and work coal and iron mines throughout the districts of Yü Hsien and Ping Ting Chow, and the Prefectures of Lusan Fu, Tsu-chow Fu, and Ping Yang Fu, and also petrolcum wherever found."

Under its contracts, the syndicate has also the right to "construct branch railways to connect with main lines or

with water navigation, to facilitate transport of Shansi coal." This has been interpreted officially to include the right of connecting the mines with Siang-yang in Hupeh, the nearest head of navigation giving access to the Yangtsze. This means a railway of 250 miles.

II. HONAN

The Peking Syndicate has also acquired rights similar to those obtained in Shansi in that part of Honan north of the Yellow River.

III. CHIHLI

The Hongkong and Shanghai Bank are financing and controlling the North China railways from Peking to Tientsin, and thence to Shanhaikwan and Newchwang. The total length of these is about 500 miles, of which 300 miles are completely open to traffic.

IV. NORTH CHINA

The bank has also acquired a half-interest in the coal mines at Nan P'iao, in the Ch'ao-yang district. According to experts, these mines possess the best and richest coal seams in North China, and they have the immense advantage of being close to a line of railway and the sea.

V. CHIHLI AND KIANGSU

The Tsung-li Yamen have undertaken officially that the construction of the Tientsin-Chinkiang line shall be intrusted to an Anglo-German Syndicate. The British portion of this Syndicate is represented in China by Messrs. Jardine, Matheson, & Co., and the Hongkong and Shanghai Bank. This will be a trunk line of 600 miles passing through more populous country than the Lu-Han Railway (the Belgian line), with which it is certain to be able to compete.

VI. KIANGSU

A British Syndicate, represented by Messrs. Jardine, Matheson, & Co., and the Hongkong and Shanghai Bank, has ob-

tained the concession to finance and construct the Shanghai-Nanking Railway. There is no more paying district than this for a railway in China. The length of the line will be 170 or 180 miles.

VII. KIANGSU, ANHUI, AND HONAN

The same syndicate has the right to extend the Shanghai-Nanking Railway from Pukow opposite Nanking to Hsin Yang, in Honan, a distance of 270 miles.

VIII. KIANGSU AND CHEKIANG

The same syndicate has the right to construct a line from Soochow to Hangchow with possible extension to Ningpo. This line will run through a very populous district for over 200 miles.

The last three concessions all lie within the Yangtsze region.

IX. PROVINCE OF CHEKIANG

The Peking Syndicate has also obtained mining concessions similar to the Shansi and Honan in this province.

X. KWANGTUNG

The Jardine Syndicate has the right to construct a railway from Kowloon to Canton. The length of this line will be nearly 100 miles.

XI. HUPEH, KIANGSI, AND KWANGTUNG

An American Syndicate signed a preliminary agreement for the construction of a railway from Hankow to Canton in May, 1897. Negotiations are now in progress for the amalgamation of this concession with the Kowloon-Canton line, and the working of the whole line from Hankow to Canton by an Anglo-American Company. This will be a trunk line, approximately 600 miles long.

XII. YUNNAN, KWEICHOW, AND SZECHUAN

The right to extend the Burmah system into China as far as the Yangtsze is admitted, and surveys are now in progress.

This involves a possible railway of 700 miles. (See Remarks on French Concessions.)

The number of miles and some of the routes relating to the above railway concessions were only roughly estimated and plotted and may be subsequently, as we shall see later, subject to changes. Notwithstanding, most of these concessions have been realized one after another.

Up to the middle part of the year 1900 the Russian, French, Belgian, and American syndicates pushed on in surveying or in constructing their respective roads with considerable vigor and energy. The British concessionaires, however, were very inactive and backward in carrying out the work on their concessions, most of which were only in preliminary arrangement and by no means promising of anything definite. This was first due to the political intrigues which had influenced the Government to oppose British enterprises and support the Franco-Belgian group of capitalists backed by Russian diplomacy, and secondly due to the outbreak of the Boer War which had made it for a time impossible to raise capital in the London money market to finance projects.

The securing of concessions for building railroads and working mines by foreign syndicates supported by their respective governments or by the combination of several governments, the energetic but dangerous action exhibited by the aggressive foreign ministries and navy and army cliques in robbing territories and seizing political and commercial privileges, and the subsidizing of China by foreign capital stirred up an anti-foreign feeling among the people. In June, 1900, the Boxer movement originating in the Province of Shantung, burst over North China. Its results were the further humiliation of China and the retardation of the constructional work on railways. After the Boxer

trouble construction of railways was, nevertheless, pushed on with greater rapidity than ever before. After this convulsion China began to lead a new life and to look forward towards finding some means for her reform and salvation.

Railway Spheres of Interest

So far we have studied only one view of the "Battle for Concessions," *i. e.*, how the European Powers have treated China and what they have squeezed out of her, especially with respect to railway concessions. Now we come to another aspect of the battle, *i. e.*, how the European Powers came from time to time into conflict with one another in dividing their spoils exacted from China. It is instructive and interesting to note the understandings and arrangements made among the foreign governments and concessionaires as to their respective spheres of activity with regard to the construction and financing of railways in China.

1. *England and France.* Our attention is first attracted by the Anglo-French Siam Convention of 1896, respecting the exploitation of Szechuan and Yunnan. By this Convention the two nations pledged each other to enjoy in common all the privileges and advantages of any nature conceded to either nation within these provinces. This agreement is looked upon as a temporary *modus vivendi*, because when a French syndicate obtains concessions in Yunnan or Szechuan they usually add these provinces to their sphere of interest, and similarly with the British. The emphatic denouncement¹ of the French pretensions by Sir MacDonald tells us the truth. A similar situation was created in the province of Kwangtung. As the Government lacks power to declare its intention to exclude the interference of the one in favor of the other, international complications are to be feared in case any cause of friction

¹ Cf. *supra*, p. 40.

is created, especially when remembering the tremendous interests at issue between the two nations in these provinces.

2. *England and Germany.* Another international arrangement was that which developed out of the apportionment of the Tientsin-Pukow line. In August, 1898, Mr. Yung Wing (educated in the United States), who had been granted the right to form a company to construct this road, signed a contract with an Anglo-American Syndicate for a loan of 5,000,000 pounds sterling.¹ As the Germans have secured railway rights in Shantung the German minister in Peking applied for the grant of this concession. Because of the German influence in Shantung and the indefinite nature of Mr. Yung Wing's right the syndicate subsequently withdrew from the field. But as the line was in part to traverse the Yangtze Valley, the British and Chinese Corporation was also interested in it. The suggestion was then made that the enterprise should be taken up by both British and German capitalists acting jointly. The two governments concerned favored this idea and sanctioned the proposal. A working arrangement was immediately formulated for the financing and construction of the line, in which Great Britain would take up that part from the southern boundary of Shantung to the terminus at Chinkiang (later changed to Pukow, a point opposite Nanking, the terminus of the Shanghai-Nanking Railway project), and Germany would share to the extent of such part of the line as traversed her sphere of influence.

In the meantime Russian influence was becoming predominant over North China and threatening the interests of the two nations. The situation was such that it required a more complete understanding between England and Germany and a strengthening of their common purpose

¹ *U. S. Monthly Consular Reports*, 1898, vol. lvii, pp. 585-587.

to prevent further encroachment by Russia upon the center of China. Consequently the capitalists of the two countries arrived at an agreement in regard to their respective railway spheres in China. The British financiers agreed to confine their activities to the Yangtsze Valley, while the Germans retained the valley of the Yellow River and the Province of Shantung. The arrangement has important international consequences, as it has checkmated the Russian advance from the North and created a German sphere of railway interest which has served as a wedge between those of the British and the Russians—a wedge which has prevented much friction between Great Britain and Russia. The agreement,¹ proposed by Herr M. A. von Hanseman representing the German Official Syndicate with regard to the railway spheres of interest for applications for railway concessions in China, which was accepted by the British and Chinese Corporation and the Hongkong and Shanghai Banking Corporation and sanctioned by their respective governments, is understood to be as follows:

It is desirable for the British and German Governments to agree about the sphere of interest of the two countries regarding the railway constructions in China, and to mutually support the interests of either country.

1. British sphere of interest, viz.—The Yangtsze Valley, subject to the connection of the Shantung lines to the Yangtsze at Chinkiang; the provinces south of the Yangtsze; the province of Shansi with connection to the Peking-Hankow line at a point south of Chengting and a connecting line to the Yangtsze Valley, crossing the Hoangho Valley.

2. German sphere of interest, viz.—The province of Shantung and the Hoangho Valley with connection to Tientsin and

¹ British and German Agreement *re* Railway Construction in China, Minutes of Meeting held at New Court, St. Swithen's Lane, London, on the 1st and 2nd Sept., 1898.

Chengting, or other point of the Peking-Hankow line, in the south with connection to the Yangtze at Chinkiang or Nanking. The Hoangho Valley is understood to be subject to the connecting lines in Shansi forming part of the British sphere of interest, and to the connecting line to the Yangtze Valley, also belonging to the said sphere of interest.

3. *England and Russia.* In the winter of 1898 when the Chinese Imperial Railway Administration concluded with the British and Chinese Corporation the Shanhaikwan Extension Railway Loan of 2,300,000 pounds sterling, the Russian government raised serious objections to the Loan Contract while the British Government of course upheld it. This was followed by a storm of violent protests; and long negotiations were conducted between London and St. Petersburg (Petrograd). On April 29, 1899, notes were exchanged and signed by the British Ambassador at Petrograd and the Russian Minister for Foreign Affairs, recording the Agreement¹ arrived at in regard to railways in China. The arrangement was, in substance, as follows:

1. Russia engages not to seek for herself or on behalf of Russian subjects other railway concessions in the Yangtze Basin, and not to place obstacles either directly or indirectly in the way of railway enterprises in that region supported by the British Government.

2. Similar engagement, *mutatis mutandis*, by Great Britain north of the Great Wall.

A supplementary note, which reflects at once more clearly the real nature and demarcation of the spheres of interest of the two nations was exchanged at the same time, respecting the Shanhaikwan-Newchwang extension and the branch line from Siaocheichau (north of Shanhaikwan) to Hsinmintun, which reads in part as follows:

¹ *British Blue Book*, China, no. 2 (1899), p. 87, *et seq.*

The general arrangement established is not to infringe in any way the rights acquired under the said Loan Contract, and the Chinese Government may appoint both an English engineer and a European accountant to supervise the construction of the line in question and the expenditure of the money appropriated to it.

But it remains understood that this fact cannot be taken as constituting a right of property or foreign control, and that the line in question is to remain a Chinese line under control of the Chinese Government, and cannot be mortgaged or alienated to a non-Chinese Company.

As regards the branch line from Siaoheichau to Hsinmintun, in addition to the aforesaid restrictions, it has been agreed that it is to be constructed by China herself, who may permit European (not necessarily British) engineers to periodically inspect it, and verify and certify that the work is being properly done.

The present agreement is, naturally, not to interfere in any way with the right of the Russian Government, if it thinks fit, to support applications of Russian subjects or establishments for concessions for railways which, starting from the main Manchurian line in a southwestern direction, would traverse the region in which the Chinese line, terminating at Hsinmintun and Newchwang, is to be constructed.

Besides the above mentioned nations there were several others taking great interest in railway matters in China. Among them were the United States and Italy. From the very beginning the United States has pursued a very righteous course in dealing with China. She always maintained fair play which has been greatly appreciated by China. Her "open door" policy, made known through her wise Secretary of State, Mr. Hay, has saved China from serious humiliation. Even during the stormy period of the Battle for Concessions China had great confidence in her. This can be proved in the case of the Canton-Hankow

concession, which the Chinese Government intrusted to the American syndicate, with full power to control the expenditure of loan funds and the management of the road, while, on the contrary, she held these to herself in the case of the Belgian concession for the Peking-Hankow road.¹

At the beginning of 1899, Italy endeavored to secure a place in China. She selected as her field of exploitation the Province of Chekiang. Although she had England's support, her effort was a failure. This was due to two reasons: First, Peking did not look upon her with favor; secondly, the popular opposition of the Italians in those days to an expansionist policy changed the mind of their government. Italy now adopts the policy of only utilizing the commercial opportunities in China.

Belgium has, no doubt, taken up a very prominent position in the Chinese railway circles; but she has no special policy, except to find new markets for the products of her great iron industries, and at the same time to create a profitable financial business. She has, however, to attach herself to France and Russia to accomplish her desire.

This was the general situation, and the above were the general arrangements concluded between the leading Powers in China just before the close of the last century. At the dawn of this century when Japan succeeded in claiming her ascendancy over Far Eastern affairs a new character was added to the list of the players in the Chinese railway drama. We will study this very character in the following period of railway development in China.

It is understood that the above international arrangements can not be and will never be perpetually maintained. There are many forces, political, financial, or otherwise, working constantly to upset them. We shall see later that the Russian, the German and even the British spheres of interest have

¹ Cf. *infra*, pp. 74-78.

already been changed or modified one after the other, not only by outsiders and new forces but also by the very nations who concluded these arrangements. In fact, France has been engaged in a great effort to join hands with Russia across the British sphere of influence. However, such an action, like other undermining forces, can not affect Great Britain seriously for she has pursued the wisest course in China—the course of the “open door” and equal commercial opportunity. Great Britain was chiefly interested in the trade of the Yangtze Valley. Her effort has been mostly directed towards preserving the freedom of trade unhampered by foreign interference, except occasionally when the situation was such that she had to act in a somewhat awkward manner.

On the other hand, the course taken by Russia and Germany has been tested and is found an utter failure. The rapid changing of hands of their interests in South Manchuria and Shantung teaches these foreigners a lesson that selfishness can never succeed. Nay, injuries brought upon the wrong-doers themselves have resulted from their cherishing the ambition of territorial expansion and national imperialism. In order to accomplish that ambition various wonderful schemes and clever intrigues have been applied for the purpose of securing exclusive privileges from a helpless country. At the time of the Battle for Concessions who knew that what they had gotten from China was to be lost? Nay, more than that, they have lost their own energy and money in addition to the loss of their game. It remains to be seen who will ultimately be benefited.

Turning now from politics to the consideration of the railway status, we are in a position to note what has been actually accomplished by the concessionaires. The railways described below are those the construction of which was either completed or started within the second period of railway development in China.

CHAPTER IV

THE FOREIGN RAILROADS

The Chinese Eastern Railway

ON September 8, 1896, an agreement was signed between the Chinese and the Russian Governments regarding the construction of this line. Under this agreement the Russo-Chinese Bank, a semi-official institution incorporated to promote Russian interests in the Far East, acquired the right to form a company called the Chinese Eastern Railway Co. to construct a railway across Manchuria forming part of the through line from Europe to Vladivostock. The company was organized with a capital of 5,000,000 roubles, nominal credit, which was divided into 1,000 shares at 5,000 roubles, nominal credit. The statutes of the company were drawn up by the chief promoter, M. de Witte, and formulated by the Russo-Chinese Bank.¹

According to the statutes, which were approved by the Russian Government on December 4-16, 1896, the shareholders of the company may be only Chinese and Russians. The concession shall lapse at the end of eighty years from the day of opening of traffic along the whole line. The Russian Government guarantees the revenue of the line for covering working expenses, as well as for effecting the obli-

¹ Chinese Eastern Railway Agreement and Statutes, see *Chung Hwa Fa Kwei Tai Tsueuen* (Complete Set of Rules, Regulations, Treaties, etc. of the Republic of China), (Shanghai, 1913), treaties, vol. xi, leaves 30 *et seq.* The statutes (in English), translated partly, see *British Blue Book*, China, no. 1 (1900), pp. 57-61.

gatory payments on bonds. Bonds can be issued only on demand, and only with the consent of the Russian Minister of Finance. The Russian Government also guarantees payment of the interest and the amortization of the bonds, and reserves to itself the right to appropriate the bond loan at a price which shall be determined between the company and the bank, and to pay to the company the agreed amount in ready money. The company is managed by a Board of Management of nine members elected by the shareholders, and a Chairman appointed by the Chinese Government. The Vice-Chairman is chosen by the members of the Board from among themselves. The chief duty of the Chairman is to keep watch over the interests of the Chinese Government. The Vice-Chairman is supposed to interest himself exclusively in the management of the company. The Russian Government has a right to superintend the progress and development of the works, during the period both of construction and of exploitation. The Russian Minister of Finance has, moreover, the right to ratify the nominations of the Vice-Chairman, the Chief Engineer, and all other officials. On the expiration of thirty-six years from the time of completion of the whole line, the Chinese Government has the right to acquire the line by refunding to the company in full all the outlays made on it by making payment for everything, such payments to be made with accrued interest.

In addition to the above there are other regulations concerning the transport of troops, the control of properties near the line, the discrimination of tariff, *etc.* All the terms stipulated in the agreement prove the preponderating Russian influence in the enterprise. It must be borne in mind that the majority of the shares are in the hands of the Russian Government.

It is therefore evident that the Chairman, appointed by

China, is simply a figurehead, and that the whole road is exclusively Russian. Throughout all the statutes of the agreement the only important reservation made in the interest of China is the right of repurchase of the road on the expiration of thirty-six years from the date of its opening for traffic and on the assumption of the responsibilities of the said company.

After all arrangements were settled the Russian Government was very prompt in carrying out the construction of the road, more on account of the important political consideration at that time than because of the shortening of the route. The Trans-Siberian Railroad as originally projected was entirely within Russian territory and followed the bank of the Amur River from Stetinsk to the Ussuri—a wide useless detour. When Russia secured this concession the section on the north bank of the Amur River was abandoned for a Trans-Manchurian Railroad which leaves a station near Chita and enters Manchuria at Manchouli to rejoin the original line at Nikolskoli, about 67 miles from Vladivostock—thus shortening the distance by about 500 miles. The line running across Manchuria towards Vladivostock covers a distance of about 960 miles in Chinese territory. In the Spring of 1897, work of construction was started and in the same year the city of Harbin was founded and made the headquarters of construction. This was the first step toward what has been called Russia's "pacific conquest" of China.

But it was merely preparatory to a more significant and more ambitious advance. When the Germans stepped on Shantung and seized Kiaochow Bay from China, Russia secured a twenty-five-year lease of Port Arthur and Talienwan and a permit to extend a branch line of five-foot gauge, from Harbin on the main line to Talienwan, subject to the same conditions as stipulated in the September

8, 1896, Agreement between the Russo-Chinese Bank and the Chinese Government. The eighth clause of the Agreement ¹ (March 27, 1898) concerning the lease of the Liaotung Peninsula issued for this branch line reads:

The Chinese Government agrees that the principle of the permission given in the 22d year of Kuang-su (1896) to the Manchurian Railway Co. for the construction of a railway shall now from the date of signature be extended to the construction of a branch line from a certain station in the aforesaid main line to Talienwan, or if necessity requires, to a convenient point on the sea coast in the Liaotung Peninsula between Yingsu (Newchwang) and the Yalu River. The provisions of the agreement of the 8th of September, 1896, between the Chinese Government and the Russo-Chinese Bank, shall be strictly observed with regard to the branch line above mentioned.

The construction of the whole system was pushed on very rapidly. In the fall of 1901 the entire Chinese Eastern Railway connecting the Trans-Siberian line with Vladivostok across Manchuria and the line south from Harbin to Port Arthur were completed. This system in Manchuria in all measured about 1,600 miles. The estimated cost of construction of the whole system was about Rbs. 422,292,547. After the Russo-Japanese War the Southern section of the railway from Kuangchengtze to Dairen (Japanese spelling of Talien) was surrendered to Japan. The Chinese Eastern Railway system, as it now stands, has a total mileage of only 1,078 miles; the Manchouli (via Harbin) to Sufenho (Pagronitchnaia) section forms the Manchurian section of the Trans-Siberian Railway with a branch to Kuangchengtze.

¹ *Chung Hwa Fa Kwei Tai Tsucuen*, treaties, vol. xi, leaves 32-35.

The Shantung Railway System

When Germany secured in Kiaochow a strategical and political position a railway convention was concluded at the same time with the signing of the Kiaochow lease whereby the right to construct a triangular system of railways in Shantung was also secured. The base of the triangle was to be a line running south-westward from Kiaochow to Ichowfu; one side was to proceed from Ichowfu to Tsinanfu, which would be the apex; and the other side was to connect Tsinanfu with Tsingtao. Although it was stipulated in the railway agreement¹ that a Sino-German Co. was to be formed and that the people or Government of China were at liberty to invest money if they chose and appoint directors for the management of the enterprise, the merchants, investors and Government of China did not take the risk of purchasing shares because of the political conditions of the country at that time. So the railway, now in operation, was practically financed and constructed by the Germans entirely. The Germans also secured the right "to hold and develop mining property for a distance of thirty *li* (9 miles) from each side of these railways and along the whole extent of the lines." It was provided in the same agreement as follows:

If at any time the Chinese should form schemes for the development of Shantung, for the execution of which it is necessary to obtain foreign capital, the Chinese Government, or whatever Chinese may be interested in such schemes, shall, in the first instance, apply to German capitalists. Application shall also be made to German manufacturers for the necessary machinery and materials before the manufacturers of any other power are approached. Should German capitalists or manufacturers decline to take up the business the Chinese shall then

¹ *Chung Hwa Fa Kwei Tai Tsueuen*, treaties, vol. iv, leaves 18-20.

be at liberty to obtain money and materials from sources of other nationality than German.

The acquisition of these rights aroused keen enthusiasm in Germany. The *Reichstag* appropriated 8,500,000 marks for the development of the port of Tsingtao. Various syndicates in Germany competed for the concession from the government to construct the railways in the Province of Shantung. In June 1899 the "Schantung Eisenbahn Gesellschaft" (Shantung Railway Co.) was organized by the prominent competitors at Berlin with a capital of 54,000,000 marks. By its concession the syndicate secured the following rights: (1) The right to build a line from Tsingtau to Kiaochow and from the latter point *via* Wehsien to Tsinanfu together with a branch line to Poshan, within a period of five years. (2) The syndicate was given an option to construct a line, until the end of 1908, from Kiaochow to Ichowfu and another connecting Tsinanfu and Ichowfu. (3). The syndicate secured the exclusive right for a period of five years of searching for minerals and petroleum within a zone of thirty *li* along both sides of the railways and of applying for claims in respect of them.

In consideration of this concession the syndicate agreed to turn over to the German Government a part of the surplus profits after paying a dividend of five per cent.

On March 21, 1900, a set of regulations¹ for the Kiaochow and Tsinanfu Railway was drawn up and signed by the representatives of the Chinese Government and the Sino-German Co., for the purposes of facilitating the construction work, of protecting the railway, of defining more clearly the scope of the company's activity and the nature of the concession, *etc.* Article 17 of the Regulations stipulated in these words: "The object of constructing this

¹ *Chung Hwa Fa Kwei Tai Tsuenen*, treaties, vol. xii, leaves 8-12.

line is solely the development of commerce, and it will not be permissible to transport foreign soldiers, munitions used by foreign soldiers or anything which is injurious to China. If this rule is violated the offender or offenders will be punished according to the Laws of the Maritime Customs." And in Art. 28, it was agreed that the provincial government of Shantung shall have the right to buy back this line after twenty years by paying four-fifths of the original cost of the machinery, rails and all other equipment of the road.

The construction of the main line from Tsingtau to Tsinan was completed in 1904, a distance of 240 miles. It is standard gauge of 4' 8½" laid on iron sleepers, and has a branch line to the Poshan mines of 34 miles, making, in all, 274 miles. The proposed line between Ichowfu and Tsinanfu was abandoned in favor of the Anglo-German Syndicate in connection with the construction of the Tientsin-Pukow line. In regard to the line from Kiaochow to Ichowfu the preliminary surveys have been made, but further work has been abandoned.

The Yunnan Railway

By the Convention ¹ of April, 1898, the Chinese Government granted to the French Government or the company chosen by the latter, the right to construct a railway from the frontier of Tongking to Yunnanfu. On December 25, 1898, the French Chamber of Deputies passed a law authorizing the Government of Indo-China to grant a guarantee of interest to the company which might become the guaranties of this line. The governor-general of Indo-China, confirming this law, signed, on June 15, 1901, with a syndicate of the principal financial houses of Paris, a convention ²

¹ *Documents Diplomatiques*, China, 1894-1898, pp. 45-50.

² Report of Cie. Française des Chemins de fer de L'Indo-Chine et du Yunnan et Société de Construction de Chemins de fer Indo-Chinois, pp. 10-12. (Paris, 1910.)

(ratified by a law of July 5, 1901) for the building of the railway from Laokay to Yunnanfu and for the working of the whole line from Haiphon to Yunnanfu. It was stipulated in the latter convention that the syndicate had to organize, within three months from the date of the passage of the law approving this convention, a stock company with a capital of 12,500,000 francs, to work the line from Haiphon to Laokay which was to be built by the government of Indo-China, and for the purpose, also, of building and working the railway from Laokay to Yunnanfu. It was also stipulated that the company would receive from the colony a subvention of 12,500,000 francs and also a guarantee of not more than three millions of francs payable yearly during 75 years, which was to be additionally guaranteed by the home government, for the bonds which it should have issued for the purpose of building the railroad. The annuity will produce a capital sum of 76,000,000 francs in 75 years. Thus the total capital estimated at the start was 101,000,000 francs.

Immediately following this convention the *Compagnie française des Chemins de fer de l'Indo-Chine et du Yunnan* was organized and bonds were issued. For the purpose of building the line from Laokay to Yunnanfu, this company, in its turn, intrusted the work to the *Société de Construction des Chemins de fer Indo-Chine*, which was formed by the consolidation of the *Régie générale des Chemins de fer* and the *Société de Construction des Batignolles*.¹

In the autumn of 1903, when the conditions under which the extension of the line was to be made on the territory of China became justified, the French minister in Peking negotiated with the Government the final agreement.² The

¹ *Ibid.*, pp. 12-15.

² *Chung Hwa Fa Kwei Tai Tsucuen*, treaties, vol. iii, leaves 41-48.

principal provisions regarding the statutes of the railroad are, in substance, the following:

The Chinese Government has no further obligation than to surrender the necessary land for the line and its dependencies. The gauge of the line is to be one meter. Once the line be completed, and if the parties concerned deem it expedient, after an understanding has been arrived at between the high provincial authorities on the one side and the French minister and the Waipupu on the other, as to the mode of procedure, branch lines connecting with the main line may be constructed. All supplies, machinery and materials necessary for the construction and exploitation of the railroad shall be exempted from Import Duty. In case of war with other nations and the railroad not maintaining its neutrality, China may take over the line and operate it, if she thinks fit. On the expiration of eighteen years after the date of signing the agreement the Chinese Government has the right to get back the land granted and to repurchase the line from the French Government after the payment of all expenses put into the railroad, including stocks, interest and principal of bonds and all properties in connection with the railroad.

The line was constructed by France with French capital without guarantee from the Chinese Government. The duration of the concession is to be eighty years, as in the case of the Manchurian Railway Concession; and on the expiration of that period the railway shall revert to China.

When the construction work began on the Yunnan section of the line there were various engineering and other technical difficulties which had to be overcome. The enormous expenditure required to construct the railroad through the Nanting Valley, and the extraordinary amount of tunneling, bridging, cutting and filling consumed all the original funds of the concessionaire company, which collapsed in 1908. In 1909, the French Foreign Affairs

Committee presented its report upon the bill—which, providing for the supply of sufficient funds to complete the work, was passed through the Chamber of Deputies at the end of 1908—authorizing the government of French Indo-China to raise a loan of 53,000,000 francs in order to meet the expenditure charged to the budget of that dependency in connection with the building of the Yunnan Railway. The loan is guaranteed by the home government, bearing interest at 4 per cent, and is redeemable in 65 years.

With the fund realized from the above loan the Laokay-Yunnan line was completed and opened to traffic in April, 1910. Its commercial prospect, according to recent reports, is not very bright.

In consequence of the financial and other vicissitudes of the enterprise and various alterations in the plans, the initial cost of the whole line from the sea to Yunnanfu amounts to about Fcs. 165,000,000 as compared with the original estimate of Fcs. 101,000,000. The capital of the *Compagnie française des Chemins de fer de l'Indo-Chine et du Yunnan* was raised to Fcs. 17,500,000. Bonds amounting to Fcs. 10,488,962 have been issued by the company.

CHAPTER V

RAILWAYS BUILT WITH FOREIGN CAPITAL

1905?
BEFORE the outbreak of the Russo-Japanese War practically all railways in China were built with foreign loans. Owing to the unsettled conditions of affairs in China in those days and the ignorance of the authorities about railway matters, exceptional powers and privileges were granted to the foreign bankers who, thereby, retained full control over the loan funds. As the foreign governments, who have endeavored to acquire fresh fields for colonization or to create preferential markets for their merchants, have exacted from China promises of different kinds for the rights of way for railway construction, the conclusion of loan agreements has been usually accomplished after much troublesome diplomatic negotiations. Therefore, a foreign loan negotiation was regarded more as a political issue than as a commercial transaction. Although nominally the loan agreements were made between the Chinese Government and the various syndicates which were supposed to be private organizations, they were taken more as "treaties" between the Chinese Government and the different foreign governments than as honest business contracts between two parties. Under such conditions, it can readily be seen, the result was that unfavorable and even notorious terms were stipulated in the agreements.

The loan agreements concluded before 1905 were more or less similar in principle to the Shanhaikwan Extension Railway loan (sometimes called Peking-Newchwang Rail-

way Loan) Agreement,¹ the preliminary draft of which was signed on June 7, 1898, when the Government contracted with the Hongkong and Shanghai Banking Corporation a loan for the Imperial Railways of North China. The definitive agreement for the same loan was signed on December 10, 1898. Under this agreement a precedent was created, the effect of which is well described by the editor and proprietor, Mr. Geo. Bronson Rea, of the *Far Eastern Review*, in the following words: ²

China voluntarily admitted the principle that her officials were incompetent to honestly administer the proceeds of a foreign loan to the satisfaction of the investor. And having once placed her financial probity in question, she has been forced through successive similar agreements to follow a practice which no other nation in the world tolerates for an instant. Through all subsequent loan negotiations China has been made to feel the mortification of the foreign assumption that although her security is good her integrity is rotten.
 In short, while China could give ample security and pay good interest, she could not be trusted with the expenditure of the money. And under the provisions of loan agreements based on these principles, China has been deprived of authority in her own affairs, and the national commercial and political interests of money lenders advanced coming into direct conflict with the Open Door Doctrine.

Under this agreement and several others which were concluded at about the same time and prior to the Boxer outbreak of 1900, the bankers have secured not only the "control" over the loan funds but also the management of the railways during and after construction.

¹ Cf. *supra*, p. 48. For Chinese text of Agreement see *Chung Hwa Fa Kwei Tai Tsuen*, treaties, vol. xi, leaves 1-5. For English text see Kent, *Railway Enterprise in China* (London, 1907), Appendix C.

² *The Far Eastern Review* (Shanghai, China), vol. vi, no. 6, p. 215.

The provisions embodied in these agreements were practically similar in principle. Besides securing a first mortgage on the railroad whose construction they financed, the bankers were entitled to a share in the profits of the line, in the management of which they usually obtained for their chief engineer powers superior to the Chinese Administrator-General or Managing Director. They obtained also facilities and privileges which assured them that the loan funds should be so expended that the mortgaged property would constitute a sufficient security. In addition to the share in the surplus profits over an adequate return of revenues from the road, ordinarily a government-guaranteed 5 per cent interest, at which money was borrowed, must be paid to the syndicate. In floating the loan the syndicate received the profits which were represented by the difference between the issue price and the price which the Government agreed to take for each £ 100 bonds, after deducting all preliminary expenses, cost of issue, underwriting, *etc.* Furthermore the syndicate usually acted as purchasing agents for the supply of materials and were entitled to a commission of a certain percentage on the cost. It was also usually stipulated that no further loan was to be raised on the same security except through the same syndicate, *i. e.*, during the life of the agreement the syndicate was insured by China that the road should not be alienated, or rather that the syndicate should be given a lien on the road. The loan was to be redeemed only after a certain period by paying a premium (if after a shorter period), or at par (if after a longer period), or by a special arrangement with the syndicate if the above two conditions were not provided.

These general provisions found in the early railway loan contracts were not made without reluctance on the part of the Government. Some of these contracts are still working. Later on, however, as we shall see in the third period

of railway development, when contracting new loans the Government succeeded after much trouble in modifying some of these provisions, especially the most notorious ones. Let us now study in greater detail the various railways for the construction of which loan agreements were concluded on the above old principles, and the various important events connected therewith.

THE BRITISH INTERESTS

I. The Chinese Government Railways of North China

We have already traced the development of this system up to the time when the Chino-Japanese War broke out. Here we are going to say something about its extension to Hsinmintun, Newchwang and Peking.

After the war with Japan the line was extended to Fengtai and from there to Machiapu, near Peking. Meanwhile, the China Railway Company which owned the Tientsin-Kuyeh section was bought up by the Imperial Railway Administration, by reimbursing its shareholders with government bonds bearing 5 per cent interest for their scrip.

Up to that time the Imperial Railway Administration had already owed the Hongkong and Shanghai Banking Corporation Tls. 1,240,000; the Russo-Chinese Bank, Tls. 600,000; and the Deutsche-Asiatische Bank, Tls. 700,000. In order to take up these liabilities and carry on the extension to Hsinmintun (in Manchuria), Mr. Hu Yen Min, the Governor of Peking and Administrator of the road, decided to float through the British and Chinese Corporation¹ a loan of Tls. 16,000,000, or £ 2,300,000, "for the construction of a railway line from Chunghousuo to Hsinmintun,

¹ The British and Chinese Corporation is a syndicate formed by the Hongkong & Shanghai Banking Corp. and the firm of Messrs. Jardine & Matheson & Co. for promoting British interests in China.

and a branch line to Yingkow (opposite Newchwang), and for the redemption of previous loans to the Tientsin-Shanhaikwan and Tientsin-Lukouchiao lines." The final agreement ¹ was then signed on October 10, 1898, with the British and Chinese Corporation.

Under the terms of this agreement the British endeavored to establish British railway principles and to create a monopoly for the supply of materials and so forth. The essential points in this agreement are as follow:

1. The loan was to be the first charge upon the security of the entire property between Peking and Shanhaikwan, and on the freights and earnings of the new lines when constructed.

2. In addition to the above the Chinese Government was made to declare itself responsible for the payment of the principal and interest at due date; and in the event of the Chinese Government being unable to pay the principal and interest the railway line and entire property were to be handed over to the Corporation.

3. No further loan was to be raised on the same security except through the Corporation; during the life of the loan the lines in the agreement were never to be alienated or parted with.

4. The life of the loan was to be forty-five years.

5. Repayment of principal commenced with the sixth year in forty equal annual instalments. Extra drawings (by lot) for redemption might be called by paying 20 per cent premium on the par value of the bonds. China engaged herself not to redeem or convert the loan except as provided in the agreement.

6. The price of the loan to China was to be 90, but the

¹ Cf. *supra*, pp. 48 and 63. Notice that the *final* agreement was signed with the British & Chinese Corporation, not with Hongkong & Shanghai Bank.

Corporation had authority to reduce it to 88 at its own discretion in case the market proved unfavorable.

7. During the currency of the loan the chief engineer of the railway should be a British subject, and the principal members of the railway staff should be Europeans, who could be appointed by the Chinese Administrator-General, but dismissed only in the event of misconduct or incompetency, after consultation with the chief engineer.

8. A European accountant was to be appointed by the syndicate with full power to organize and direct the keeping of the railway accounts, and to act with the Administrator-General and the chief engineer in the supervision of receipts and expenditures.

From the conditions prescribed above we see that the loan was quite amply secured and safeguarded—probably more amply than any loan of such a nature in the world. In addition to the mortgage on the property a government guarantee was required; and the British engineer-in-chief has practical control of all affairs.

Seeing so many advantageous terms given to the concessionaire, the Russian Government made an official protest on the ground that the appointment of the chief engineer and accountant would constitute “foreign control of the line” and that it would interfere with Russian rights in Manchuria. In the meantime the Russo-Chinese Bank also entered into competition to handle the loan on more favorable terms to China. Subsequently, as we have seen, the matter was adjusted by defining the respective railway spheres of interest.

After this controversy was over construction work was pushed on very rapidly. By February, 1900, the line was extended to a point thirty miles beyond Yingkow. From Kaopangtze the line was also extended further for twenty miles. Then the Boxer trouble broke out, the construction

program was greatly interfered with, and many parts of the line were torn up.

The Boxer trouble brought the invasion of the allies into Peking as well as international complications over the railway line. The Russians assumed control of the Tonghu-Yangtsun (north of Tientsin) section, while the British soldiers controlled the Fengtai station, the north end of the line. The Russians then proposed that the Germans should take charge of the Peking-Yangtsun section and the Russians manage the Yangtsun-Shanhaikwan section. This aroused the British, who took quick action at once by landing a force at Shanhaikwan in September. Following on the heels of the British the Russians also sent a force there and claimed the section from Tonghu to Newchwang by right of conquest. Thus conflicts of interests were precipitated among the allies. The relations between Great Britain and Russia were especially strained. In 1901, conferences¹ were held and the different Powers concluded an agreement by which the Russians retired and the British Railway Administration was given the control of the Shanhaikwan-Peking section. By the end of 1902, the British were also in control of the Shanhaikwan-Newchwang section. Later on, the whole road was turned over to the Chinese Imperial Railway Administration.

This is the most prosperous line in China. Traffic receipts increased by leaps and bounds. The financial basis of the road is very firm. Now, the Chinese share holdings exceed the British loan participation in the capital of the road, and the Government has endeavored from time to time to secure a little more right to exercise a voice in the control of the road. With the profits of the road, the Peking-Kalgan Railway was built by the Government, en-

¹ *British Blue Book, China*, no. 7 (1901), 127 pages.

gineering works were erected for constructing bridges, while cars, locomotives, and even several short branch lines were also built. The Tangshan Railway and Mining College is also partly supported by this road.

II. The Shanghai-Nanking Railway

On May 13, 1898, the preliminary agreement for the acquisition of a loan for the construction of this line was signed between Sheng-Hsuan-hwai, then Director-General of the Chinese Imperial Railway Administration, and the British and Chinese Corporation, at Shanghai. On July 9, 1903, the final agreement¹ was concluded between the same parties. The latter provided for the issue of a sterling loan for an amount of not more than £ 3,250,000. The bonds were to be issued for the entire sum and were similar to those of the Chinese Government Railway of North China, with the railway as first mortgage security therefor. The price agreed upon for the loan was 90 per cent of the nominal value of the bonds which bear interest at 5 per cent per annum on their nominal value payable half-yearly. The life of the loan was to be fifty years. Before 25 years from the date they were originally issued the bonds were to be redeemable at £ 102½, and after 25 years at par.

The general principles outlined in the final agreement were practically modeled after those of the Chinese Government Railways of North China, with the exception that they were described in greater detail and a few additions were made. In addition to the Chief Engineer and the Director-General, a Board of Commissioners was created for surveying the construction and operation of the railway.

¹For English text see Kent, *Railway Enterprise in China*, Appendix D. For Chinese text see *Chung Hwa Fa Kwei Tai Tsueuen*, treaties, vol. vi, leaves 5-17.

The members of the Board were to be five in number, of whom two were to be Chinese—one to be appointed by the Director-General and one by the Director-General in consultation with the high authorities of the province through which the line passes; and besides the Chief Engineer, who was to be nominated by the Corporation and approved by the Director-General, there would also be two British members selected and appointed by the Corporation. It was clearly stipulated in this agreement that after deducting from the income of the railway the working and other expenses, the Corporation was to receive 20 per cent of the net profits, to be represented by or in form of certificates to an amount equal to one-fifth of the cost of the line.

Although it was stipulated that the loan was to be £ 3,250,000, only £ 2,900,000 has been issued in two instalments. In view of the extravagance entailed in increasing the size of the loan, the expenses in its underwriting and floating and the commission on purchases, the Government authorized the balance of the loan and any further funds needed for the completion and operation of the line to be supplied from the Treasury.

The entire road was completed by March, 1908. It was fairly substantially built, but the trade conditions of the region it serves do not demand such an expensive road. The capital expenditure on the construction of the line and therefore the interest on the loan are so great that there is always a large deficit between the fixed charges and the earnings in spite of strenuous efforts made to reduce it. The Government has to bear this heavy loss.

As a result of the lessons learnt from the administration of this road, in which the foreign chief engineer has sole control of the expenditure of the loan funds, China has changed her attitude towards all foreign loans, especially British loans. This explains partly the reason why China,

in signing new loan agreements of any importance after 1905, insisted upon the modification of the old British principles.

III. The Tao-Ching Railway

This railway is sometimes called the Peking Syndicate Railway. The Peking Syndicate, Limited, was registered on March 17, 1897, in London, for the purpose of obtaining and developing concessions for mining, railway and other undertakings in China. It was originally organized by British and Italian financiers with a capital of £ 20,000 which was later increased to £1,520,000. Now the British interests practically predominates the syndicate entirely.

In May, 1898, the Shansi Bureau of Trade signed an agreement with the syndicate for working coal and iron mines in five different places ¹ in the Shansi province; and in June, the Yu-feng Company signed a mining agreement on similar terms with the said syndicate for mining in Honan province in the neighborhood of Huai Ching and north of the Yellow River. Both of these agreements were ratified by the late Government.

It was stated in Art. 17 of the said agreements that the Peking Syndicate, on notifying the Governor of the province concerned, should be permitted to build a railway connecting the mines with a main line or with water navigation. In June 1902, when the coal mines in Sui-wu Hsien of Honan province were about to be opened, the syndicate gave such notice to the Governor and obtained permission to build a railway from these mines to Taokow, a port on the Wei River. In 1905, the line, extending from Taokow to Pashan (near Chinghua Chen) in the Province of Honan and covering a distance of about 90½ miles, was completed.

¹ Yu-Hsien, Pingting-chow, Luanfu, Tsechowfu, and Pingyangfu.

At that time there arose an ambiguity in the interpretation of the seventeenth clause of the concession agreements, which reads:

Whenever it may be necessary for any mine to make roads, build bridges, open or deepen rivers and canals, or construct branch railways to connect with main lines or with water navigation to facilitate transport of Shansi coal, iron and all other mineral products from the province, the Syndicate on reporting to the Government of Shansi is authorized to proceed with the works, using its own capital without asking for Government funds.

This clause was interpreted by the government officials as restricting the company to local requirements, but the syndicate argued that they were entitled by it to the right not only to build railways in the immediate localities of the mines but also to build roads at the discretion of the syndicate, in other words, to build lines to any market in China at their option, if their argument is followed to its logical end.

As a matter of fact, as far back as 1898, besides the survey on the Taokow-Pashan-Tzechowfu line, several other surveys were conducted by the surveying parties sent out by the syndicate in order to find a line to the Yangtsze. They found the route from Taokow to Pukow the most desirable and made a claim on it.

About the same time, the British and Chinese Corporation, a rival syndicate having the support of the British government, secured the concession for the Tientsin-Pukow line. In such a situation the interests of the two syndicates necessarily came into conflict. Subsequently, this difficulty was solved by a combination of the two companies and an agreement to equal participation in all future railway development north of the Yangtsze.

Having watched for some time the complicated development of the Peking Syndicate's concession, and realizing their error in committing themselves to such an indefinite agreement, secured at a time when they were ignorant of its value, the government officials set to work to undo their mistakes by purchasing the Taokow-Chinghua Railway at its construction value. To this end an agreement¹ was entered on July 3, 1905, in which the Government agreed to take over the line from the syndicate and to give in payment gold bonds bearing interest at 5 per cent, and permitted the control of the road to remain with the syndicate until the bonds are redeemed.

The cost of constructing the road was estimated at £ 614,000 and is represented by a loan of £ 700,000 which has been accepted by the syndicate at 90. The loan runs for thirty years and is redeemable after 1916. While the line has been handed over to the Chinese Railway Administration it continues to be operated by the syndicate which is to receive 20 per cent of the net profits. It was also stipulated in the loan agreement that when the syndicate has fixed a date for opening mines in the neighborhood of Tsechow, the syndicate will provide funds for the construction, *etc.*, of the Pashan-Tsechow section. It may be added here that the Tao-Ching line was originally not a loan-built road, because the loan was contracted, after the completion of the road by the syndicate, to buy out the syndicate's absolute control of the line.

Having seen the danger of the indefinite agreement, the provincial authorities, at the same time, endeavored to repurchase the Shansi rights from the syndicate. After much bargaining with the syndicate and long diplomatic negotiations with the British minister at Peking they succeeded in

¹ For English text see Supplement to *The Far Eastern Review*, *China's Foreign Railway Agreements*, Nov., 1909, pp. 6-7.

having the syndicate surrender its rights of mining in Shansi by offering Tls. 2,750,000. On the other hand, the syndicate, in making an agreement with the Shansi authorities, obtained the promise of a preferential right of supply of capital for future enterprises. The agreement provides that "if hereafter foreign capital is required for mining, iron smelting or transport of materials, the Peking Syndicate shall have the first option." By "transport of materials" it has been presumed by the directors of the syndicate to mean railways. Here is the germ of possible future dispute.

THE BELGIAN, FRENCH AND RUSSIAN INTERESTS

I. The Peking-Hankow Railway

This was the first railroad for the construction of which the Government formally invited the co-operation of foreign capitalists. As we have seen in Chapter III, page 35, a Belgian Syndicate, willing to accept all terms offered by the Government without question, secured the concession by underbidding the American and British capitalists. The Chinese Railway Company, a government organization,¹ had already raised a capital of thirteen millions of taels in China. On May 27, 1897, a provisional contract was signed between the Chinese Railway Company and the *Société financière et industrielle belge en Chine*, for a loan of 112,500,000 francs bearing interest at 4 per cent. As the Belgians found out that the loan could not be successfully floated on this basis, on July 21 an additional protocol to the contract was concluded between Sheng Hsuan-huai, the Director-General of the Chinese Railway Company, and the representatives of the Belgian Syndicate, bringing the interest up to 4.4 per cent. When the syndicate wanted to

¹ Cf. *supra*, pp. 34-35.

finance the project in Europe, the agreement was found still unworkable. With the help of diplomatic pressure, in which they were assisted by Russia and France, the Belgians secured improved conditions from the Government by revising the original arrangement. On June 26, 1898, two more contracts, a loan contract and an operating contract, were signed with the *Société d'Etude de Chemins de fer en Chine*,¹ in addition to the original contract and protocol.

The agreement² in its final form provided for the issue of a loan of a nominal value of 112,500,000 francs (£4,500,000), at 90, represented by 225,000 bonds of 500 francs gold, bearing interest at 5 per cent and to be amortized within twenty years after 1909. The Government was given the right to repay the loan in or after 1907, thereby canceling the agreement. The bonds were secured on the net revenues of the line and the gross revenues of the Chinese Government (a new point different from the British contracts where the whole road was pledged as security). During the currency of the loan the Russo-Chinese Bank was to take charge of all financial arrangements. The 13,000,000 taels of the Chinese Railway Company was in the first place to be applied to the construction and to the putting in complete working order of the Lukouchiao-Paoting section of the line.

The syndicate has the right to direct the construction of the line. The work of construction and technical control was placed under a chief engineer appointed by the syndicate, subordinate to the Director-General. This chief engineer could select the foreign railway staff, but appointments could only be made by the Director-General, who also

¹ A Franco-Belgian syndicate in which the Belgian share was only 40 per cent. See *Documents Diplomatiques, Chine, 1898-1899*, pp. 140-146 (published, Paris, 1900).

² Laboulaye, *Les Chemins de fer de Chine* (Paris, 1911), pp. 107-120.

had absolute power of dismissal for insubordination, drunkenness, bad conduct, incapacity or carelessness, without the sanction of the chief engineer (a far more favorable term than that stipulated in British contracts).

The *Société d'Etude* was promised that, with the exception of what could be supplied by the Hanyang Works (a Chinese semi-official iron and steel establishment), all materials and supplies necessary for the construction and working of the railroad should be ordered, from the *Société d'Etude*, which would fill the orders under the best possible terms subject to the approval of the Chinese Director-General. A commission of 5 per cent was to be paid to the syndicate on all purchases abroad.

Under the terms of the operating contract, the *Société d'Etude* was to take over the working of the line as soon as each section was completed, following its final acceptance by the Imperial Administration of Chinese Railways. The syndicate or its representatives were to organize the various services; to have absolute right to hire and dismiss the personnel for the services; to make all purchases necessary for operating, maintaining or repairing the road; to fix the schedule of rates in the terms of the concession contracts; and to collect revenues of all kinds and pay the operating and managing expenses of the company. These measures, taken for operating the line, were to be submitted, for consultative purposes, to the Director-General of Chinese Railways. The Chinese Railway Company, however, was to have absolute right of control over the receipts and expenses. By the operating contract it was also agreed that the concessionaires were entitled to 20 per cent of the net profits of the undertaking after the payment of all expenses and the bond interest.

In March, 1899, the loan was issued at the same time at Brussels and Paris. Nearly four-fifths of it was subscribed

in France. Thus, nominally, the railway was a Belgian concession; actually French interests dominated the line and the Russians had also participated in the project. In this connection it was confirmed that French and Russian influences combined to the furtherance of the Belgian syndicate's interests during the negotiations for the loan, with the ultimate purpose of securing a link in the Peking-Hankow line for a railway through the country.

As a whole, the terms of the agreement were much more favorable to China than those of the British agreements, in that they gave the Chinese authorities greater control of the property. The provisions of the agreement, which gave China absolute control of expenditure of funds and the privilege to redeem the loan at the end of ten years, placed an effective check on any ambitious scheme to dominate the railway situation by Belgian, French or Russian interests.

By the fall of 1905, the line was opened for traffic, with the exception of the bridge over the Yellow River, the construction of which presented many engineering problems. The length of the great bridge is 3.03 kilometers, or about 2 miles, consisting of 102 spans, a part of them 65 and the remainder 98 feet in length. The length of the line is about 756 miles.

By 1907, the road was earning large profits. The Government, considering the great future value and probable profits of the line, decided on exercising its right to repurchase the road according to the provisions of the agreement, in order to secure absolute possession of the line and eliminate the payment of the great percentage of profit. Negotiations were then entered into with the Belgian syndicate with a view of issuing a new loan to redeem the old one. At that time the capital of the Government for the Lukao-chiao-Paoting line was Tls. 5,620,000, and part of the original Belgian loan was already paid off. It was found that

it was necessary only to raise a loan of 50,710,000 francs to redeem the old loan. The negotiations were successful. On January 1, 1909, the Belgian interest was bought out and the line was taken over by the Government authorities at Peking. In this transaction, the Government promised the Belgian syndicate an extra bonus of 705,000 francs as soon as the accounts of the road were audited by a commission consisting of representatives of the Government and of the syndicate. On the payment of the bonds, the syndicate's connection with the line ceased entirely.

II. The Peinlo Railway

This line runs across the Peking-Hankow road from Kaifengfu to Loyang (Honanfu) in the Province of Honan. In 1899, the construction of this line was proposed by the Government. In 1902, negotiations for a loan took definite form and in 1904 a final contract¹ was concluded in Shanghai between Sheng Hsuan-huai, the Director-General of the Imperial Railways, and the representative of the *Compagnie Générale de Chemins de fer et de Tramways en Chine*, Monsieur Armand Rouffart.

The contract provides for a loan of £1,000,000 or 25,000,000 francs, issued at 90, bearing interest at 5 per cent, secured by the road and guaranteed by the Government, which has the privilege of redeeming it in twenty-five years. After ten years, the date of first amortization, it can be refunded or converted. In the agreement the same general rule as applied to the Peking-Hankow road was practically adopted for the ordering and purchasing of materials and the engagement of the chief engineer and foreign staff. The conditions regarding the management of the road and

¹ *Chung Hwa Fa Kwei Tai Tsueuen*, treaties, vol. xii, leaves 24-33. For French text see Laboulaye, *Les Chemins de fer de Chine*, pp. 154-170.

the supervision of accounts were also practically similar to those of the Peking-Hankow loan contract. A significant point provided in the agreement is that the Belgian company secured an option ¹ to extend the line to Si-ngan Fu, the capital city of Shensi province.

The road was completed some years ago. The outcome of the contract was fairly satisfactory to both parties. The road is about 120 miles long and is now in Chinese control.

III. The Cheng-Tai Railway

This is a branch line of the Peking-Hankow Railroad, running from Chengting to Taiyuanfu. In 1897, the Russo-Chinese Bank and the *Comptoir d'Escompte* sent a French engineer into the Shansi province to study its mineral resources and determine the route of a future railway. In May, 1898, a preliminary agreement for a loan of 25,000,000 francs for the construction of this line was approved by the Government. On a re-survey, the loan was increased to 40,000,000 francs, nominal value, owing to the difficult engineering works to be encountered in traversing the very mountainous country. The final agreement ² was then formally ratified on September 7, 1902, by an Imperial Decree.

According to the agreement the bonds were to be issued at 90, bearing interest at 5 per cent and redeemable in twenty-five years. The loan is secured on the undertaking and guaranteed by the Chinese Government.

All the construction and works were executed under the supervision of the Imperial Chinese Railway Company. The Russo-Chinese Bank engaged to use local materials

¹ Cf. *infra*, Lung-Tsing-u-Hai Ry.

² *Chung Ewa Fa Kwei Tai Tsuenen*, treaties, vol. xii, leaves 1-7. For French text see Laboulaye, *Les Chemins de fer de Chine*, pp. 124-137.

and labor as far as possible, and in any case to spend the greater part of the loan on the spot; but in case materials were to be procured abroad, they must be purchased by the Bank from Russia and France at prices settled by reference of the company to the Chinese Ministers in Russia and France.

The construction of the line was turned over to the Belgian syndicate of the Peking-Hankow line. The administration of the road rested with the Chinese Railway Company. A foreign Agent, paid by the company, was to be present at all meetings of the managing officers and to exercise supervision over all matters of accounts, machinery, *etc.* The accounts were to be kept after foreign methods.

After the completion of the railway the yearly surplus, if any, left after the payment of working expenses and "official profits," was to be dealt with as follows: 5-10ths to the Company; should this 5-10ths amount to 30,000 taels or over, the salary of the Superintendent of the Chinese Railway Company would be paid out of it; if the 5-10ths did not amount to Tls. 30,000, the salary was to form part of the working expenses; 2-10ths to the State; 1-10th to the Shansi Trade Bureau to be used for public purposes; and the remaining 2-10ths to the Bank during the currency of the loan.

Construction work commenced in 1903 and the road opened for through traffic in 1907. Owing to the mountains and difficult nature of the country which the line traverses, a meter gauge with 60 lb. rail was adopted instead of a standard gauge. The difference in gauge prohibits a junction with the main line (Peking-Hankow line), and the interchange of cars, compelling the complete transfer of through freight at the Chentow terminal (a town, several miles to the south of Chingtingfu).

THE AMERICAN INTERESTS

The Canton-Hankow Railway

When the American financiers were forced to retire from the Peking-Hankow deal by the Belgian syndicate in 1897, the Chinese Government, having adopted the policy of dividing as equally as possible the railway rights between the different Powers, invited the American financiers to undertake the Canton-Hankow line. A contract ¹ was then signed in April, 1898, with the American China Development Company, by Dr. Wu Ting-fang acting as representative of Mr. Sheng Hsuan-huai. About the time of the execution of the contract the Spanish-American War broke out, and nothing further was done until after the conclusion of the war when, in the following autumn, a surveying party headed by Mr. Wm. Barclay Parsons was sent to China. After the survey it was discovered that the cost, originally put at \$20,000,000 gold, had been underestimated to the extent of nearly 100 per cent. The company therefore determined to negotiate a supplementary agreement in order to modify certain terms in the contract.

After overcoming much political difficulty and opposition arrayed against him by the French and the Belgians, Mr. Cary, a member of the New York Bar, supported from Washington and Peking, had the supplementary agreement concluded in 1900. In the new agreement ² the following principal modifications of terms were made:

1. An increase in the amount of the loan to \$40,000,000 gold.
2. An extension of the time for completion of the road from three to five years.
3. A restriction on assignment, in regard to which a

¹ *British Blue Book*, China, no. 1 (1899), pp. 336-339.

² *The Canton-Hankow Railway Contracts*, published by the Irving Press, 225 Fourth ave., New York City, in 1900.

clause was inserted as follows: "The object of making this supplemental agreement of equal force with the original agreement is to permit the benefits being transmissible by the American Company to their successors or assigns, but the Americans cannot transfer the rights of this agreement to other nations or people of other nationality."

According to the final agreement the loan was to run for 50 years, although earlier redemption was provided. Bonds, which were secured on the property and guaranteed by the Government, were to be issued at 90 and were to bear interest at 5 per cent. The American Company was voluntarily given by the Chinese Government absolute power to direct construction and operation of the line and to control the expenditure of the loan funds. At the same time the company was granted 20 per cent of the net profits of the line after operation for a number of years.

When the American syndicate ¹ secured this advantageous agreement, the European combination set to work to undermine American preponderance by purchasing shares in the open market in New York City. The unfortunate death of Senator Brice, a man of great energy and remarkable character, which qualities had attracted the original subscribers to the syndicate, caused the enterprise to lose its chief supporter and gave the Belgians and the French a freer hand to accomplish their aim. Among those associated with him was no one who fully shared or was able to carry out his ambition of introducing American

¹ The American Syndicate, which was organized by the late U. S. Senator C. S. Brice with Wm. Barclay Parsons as chief engineer and Cary and Whitridge as attorneys, was composed of practically all the great rival financiers of New York, all of whom signed Senator Brice's application for the concession. The members of the syndicate were J. P. Morgan, J. D. Rockefeller, Mr. Cassatt, the Vanderbilts, Mr. Harriman, Mr. Gould, Mr. Sage, Mr. Hill, Sir Wm. Van Horne and other capitalists and leading banking firms.

railroads into China. Consequently, the Belgian agents obtained a controlling number of shares in the company. Mr. Parsons, who had succeeded to the presidency of the company on Senator Brice's death, was then superseded by General Whittier, the agent of the Belgian syndicate in New York; and in addition, the American Manager of the company's Shanghai office and the American engineers were recalled and replaced by Belgians.

In the spring of 1904, China protested strongly against the situation and refused to recognize the Belgian control of the company. Through the efforts of J. P. Morgan & Company, a majority of the shares were again brought under American control.¹ But after that several months of complete inactivity followed. An outcry was raised among the gentry and merchants of the South, demanding the cancellation of the concession. Sheng Hsuan-huai, directed by Viceroy Chang Chih-tung who had taken special precaution to prevent Belgian influence extending to this line before the concession was made, then insisted that the agreement be cancelled. After tedious negotiations the line was taken over by the Government on payment of \$6,750,000 gold. Later, the Government handed the road over to three provincial companies which were to undertake its construction separately in three different sections.

The American Company had undertaken two surveys, had built 32 miles of railway (the Samshui branch), and had completed 50 miles of roadbed at the Canton end of the main line. They claimed an expenditure of \$3,000,000 gold for

¹ According to Mr. J. C. Fergusson's report the stock books in the different N. Y. banking offices showed that 6,000 outstanding shares were owned by American citizens, members of the original syndicate, 1,004 by a French banking house and the balance, 1,796, by Belgians. Mr. Fergusson was Sheng's foreign secretary despatched to the U. S. to investigate the actual situation and to ascertain the cause of the delay.

this work and \$3,750,000 as compensation for the loss of valuable rights, making in all \$6,750,000 gold. This sum has been commented upon as unduly excessive. In fact, it was the American company who committed the breach of faith because it had been particularly stipulated in the supplemental agreement that no rights should be transferred to other nationalities. The United States State Department, however, was credited with not having brought any diplomatic pressure to bear on Peking to retain commercial or political advantages under the terms of the concession. Such an attitude taken by Washington was greatly appreciated in Peking. The United States has always been looked upon by Peking as the "most favored nation." As a matter of fact, the Chinese Government had granted the American company more favorable terms in the agreement than any other concession, except perhaps the early Peking-Newchwang loan contract.

During the turmoil of demands for the cancellation of the concession, the merchants and gentry of Kwangtung, Hunan and Hupeh (through which the line passes) promised with great enthusiasm to repurchase the American interests and to raise capital in the country to build the line themselves. But when the time came for payment of the American loan no substantial funds were forthcoming. The British consul at Hankow then proposed to Viceroy Chang to offer his service to obtain a British loan through the Hongkong Government to redeem the American interests. The negotiation for the loan was successful. On September 9, 1905, a loan agreement ¹ was concluded for a loan of £ 1,100,000 bearing interest at 4½ per cent, redeemable in ten years and secured by the opium revenues of Kwangtung, Hunan and Hupeh.

¹ *Chung Hwa Fa Kwei Tai Tsueuen*, treaties, vol. xi, pp. 20-24.

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THIRD PERIOD

CHAPTER VI

PROVINCIAL AND PRIVATE ENTERPRISES

THE third and present stage of railway development may be regarded as commencing during or immediately after the Russo-Japanese War. The victory of the Mikado's troops over the Czar's not only arrested the increasing influence and power of Russia in Manchuria and Peking but gave the greatest impetus ever found in the history of China to hasten China's reform movement, and also stimulated the patriotic children of China to act more rapidly in different fields and in various forms. The progress made in railway affairs was one of these. The different classes of the people, instead of the enlightened officials alone as in the case of the previous periods, have appreciated the advantages and have realized the importance of the iron highway.

Feeling that their country was dominated by foreigners and fired with the laudable ambition to furnish from their own pockets the capital required for the building of railways in their own provinces, the prominent merchants and gentry of the several provinces started a "sovereign right campaign." They either filed application with the Board of Commerce for the purpose of undertaking railway building in their own provinces or petitioned the Waiwupu¹ (Board of Foreign Affairs) to regain some of the concessions already granted to foreigners, basing their pleas on the stipulation with the concessionaires that "those concessions promised to them can be handed over to any Chinese

¹ The Waiwupu was established by the Imperial Edict of July 24, 1901, which has reformed the Office of Foreign Affairs.

corporation provided they are purely Chinese undertakings." After accomplishing this they started to raise capital entirely from Chinese sources and to organize stock companies¹ which, by the way, showed the furthest stage of commercial development the people of China have reached. Out of these conditions several characteristics were later developed in railway matters, *viz.*: (1) Private enterprises greatly influenced by the sovereign right campaign; (2) conflicts of different interests; (3) nationalization of railways; (4) financial combination among foreign syndicates and a resultant monopoly. We will study these different phenomena in their proper place. Let us first of all trace how the different private enterprises came about.

Mr. Chang Yu-nan of Fukien, who made his fortune in Java, was the first Chinese merchant who started the first purely Chinese railway enterprise. In 1903, he obtained a grant from the Government to build a line from Swatow to Chaochowfu in the Province of Fukien. The Chaochow and Swatow Railway Co., capitalized at \$3,303,303 Mex., was the first distinctly Chinese railway organization which has succeeded in constructing and operating a road. Construction work was commenced in September, 1904, and carried out by Japanese engineers. The road was open to traffic throughout its entire length of about 30 miles by November, 1906. But the competition of the slow but cheap boat lines was so keen and the length of the railway was so short that its earnings have been very poor. No dividends have been paid since 1906. Now the manager of the road plans to raise more funds to extend the line to Sheklung on the Canton-Kowloon Railway.²

¹ Chinese merchants usually formed a "guild" to carry on an enterprise on any large scale.

² Anderson, *Railway Situation in China*, U. S. Special Consular Report, no. 48, p. 25. (Washington, D. C., 1911.)

The activity of the private entrepreneurs of China was next seen in the Provinces of Kwangtung and Hunan, where the wealthy merchants and gentry combined to redeem the American interests when the Belgians gained control of the American China Development Co. The Mercantile Administration of Yuet-Han (Canton-Hankow Railway Co.) was then organized in 1905 with a capital of \$40,000,000 Mex. on which calls have been made for carrying on the work. By 1911, about one-half (100 miles) of the Kwangtung section of the whole line had been completed. The Hunan section has been undertaken by a separate provincial company which has raised about \$5,000,000 Mex. and has completed about 35 miles of railroad. Owing, however, to the difficulty of raising enough funds to push the work forward and the strong opposition of the villagers, progress has been very slow.¹

In 1906, we find construction work begun on four other private roads, *viz.*, the Hsinning Railway in Kwangtung province, the Kiangsi (Kiukiang-Nanchang) Railway in the Province of Kiangsi, the Anhui (Wuhu-Kuangtechow) Railway in the Province of Anhui and the Chekiang-Kiangsu (Shanghai-Hangchow-Ningpo) Railway. In 1907, work on the Fukien (Changchowfu to Amoy) Railway in the Province of Fukien and the Tsitsihar Light Railway in North Manchuria was started by natives. In 1910, the rails of the Tungkuan-Honanfu (Lotung) Railway in the Province of Honan and the Szechuan-Hankow Railway were laid from their respective terminals.²

Besides the above lines on which work has been actually done there were many other lines projected, *e. g.*, the Harbin-Shuhui-Huilin line, in Manchuria, a light railway of about 150 miles; the Yushan (in Kiangsi) to Changshan

¹ Anderson, *op. cit.*, pp. 21-23.

² *China Year Book* (in English), (London, 1914), pp. 234-242.

(in Chekiang) line; and the Tungpu line. For the construction of these lines local funds were raised in 1911. There were also other projects which were of less definite nature. All these lines, however, had been surveyed before the Revolution of 1911 broke out.¹

The Chekiang-Kiangsu, the Szechuan-Hankow, the Canton-Hankow and the Lotung lines are considered trunk lines which we will discuss later in greater detail. The rest of the roads which have been completed or are under construction at present are taken as branch lines and are therefore of only secondary importance. It is, however, interesting and instructive to study briefly the experiences of a few of the private and provincial railway companies which were more or less successfully organized and have actually done something real and tangible.

I. *The Hsinning Railway* ²

The Hsinning Railway Co. was originally formed with a capital of \$2,660,000 Mex. Later the capital of the company was increased to \$4,306,120 Mex., \$1,000,000 of which represents loans from merchants. The company was organized by Mr. Chin Yu-hee, who gained his knowledge of railway matters in the United States of America where he resided for many years. It was due to his influence that the Chinese residents in the United States subscribed most of the capital. A small part of it was subscribed by the Chinese merchants in Hongkong.

The line runs through the Hsinning district of Kwangtung province. The completed section of the line running from Kongmoon to Samkaphoi (a harbor site in lower Hsinning) *via* Kongyik and Hsinnighsien is about 68 miles

¹ Anderson, *Railway Situation in China*, *passim*.

² *China Year Book*, 1914, p. 239. And *The Far Eastern Review*, 1909, Nov., pp. 254-257.

in length. The cost of construction is estimated at \$3,510,000 Mex. The company has already secured permission to connect with the Canton-Hankow line from Kongmoon at Fatshan.

There are two exceedingly remarkable features in connection with this road. (a) It is the first railway in China financed, constructed and operated entirely by Chinese. Not a single cent of foreign money is invested in the enterprise and not one foreigner is employed. (b) The salary paid to the president of the line is perhaps the lowest received by the head of any railway in the world. Mr. Chin Yu-hee, the President, Chief Engineer and General Manager, signs a voucher for \$80 Mex. a month. The success of the enterprise is largely due to his energetic activity and commendable devotion. The completed section of the line is operated very economically. Work on the extension has, however, been somewhat delayed by the unsettled conditions prevailing in the country and by the local opposition, because of superstitions, to the building of bridges over ponds or creeks.

II. *The Kiukiang-Nanchang Railway*¹

After having obtained the right of way in 1904, the Kiukiang-Nanchang Railway Co. secured permission from the Board of Commerce to issue lottery tickets in order to raise the necessary capital for construction. It was originally contemplated extending the line from Nanchang to Shaochow to Kwangtung, to connect there with the Canton-Hankow Railway. The line was surveyed in 1905, but actual construction was not commenced until 1908. The company was organized with a capital of Tls. 2,800,000. From the beginning financial troubles set in and work was greatly retarded. The company had planned to contract

¹ *China Year Book*, 1914, p. 241. Anderson, *op. cit.*, p. 19.

loans from local banks, but the money was not forthcoming in a way to permit rapid work.

It is reported that only about one-half of the whole line of 87 miles in length is near completion. Trains are running over a short distance of the road. The engineering staff, until very recently, was entirely Japanese. No engineering obstacle is encountered in building the line, but the difficulty of securing a sufficiently large capital from local sources to complete the line has embarrassed the railway management greatly.

In 1912, the company arranged a loan agreement with a Japanese syndicate for Yen 5,000,000; but the condition that all contracts were to be in the hands of the syndicate and also the mode of paying the proceeds of the loan aroused serious opposition from these merchants and gentry who have interests in the enterprise.

III. *The Fukien Railway* ¹

In 1905, the Merchants' Fukien Railway Co. was organized by Mr. Chen Pao-chen. In 1906, the route from Changchow to Amoy, a distance of 33 miles, was surveyed; and a right of way was secured to connect Fukien with Kwangtung on the south, and with Kiangsi on the west. The company was originally formed with a capital of \$6,000,000 Mex. in \$5 shares on which a call of one dollar has been made from the Chinese residents of the Straits. The provincial taxes upon salt and grain were pledged as security for interest upon the shares ² of the company. Thus the road was voluntarily transferred to the Provincial Government, notwithstanding the claim of the so-called share-

¹ *Far Eastern Review*, vol. vi, no. 6, pp. 262-266; and vol. x, no. 8, p. 321.

² The so-called "shares" as stated in the reports of the company are in reality bonds.

holders, who were ignorant of corporation laws, that the road was a private enterprise.

The officials and engineers of the road are all Chinese. The company has contracted with Japanese firms for sleepers. In 1909, a year after the construction work was begun, all the funds previously obtained were exhausted and a loan of \$500,000 was raised from the Bank of Communication. In 1914 less than twenty miles of the line was open to traffic; also, the financial strength of the merchants had failed.

IV. *The Shanghai-Hangchow-Ningpo Railway*¹

The history of this road teaches a lesson of what is known as "Might is Right." We remember that when the "Battle for Concessions" was at its height at Peking, the British and Chinese Corporation secured with official support the preliminary agreement for the concession of the Soochow-Hangchow-Ningpo road. As the Corporation was fully occupied in financing the Shanghai-Nanking and the Kowloon-Canton² roads the perfecting of this concession was consequently delayed. According to the agreement the concession could be canceled. In fact, Mr. Sheng Hsuan-huai in 1903 notified the Corporation to this effect, but the representatives of the Corporation turned a deaf ear to his note. The Ministry of Commerce at the same time recommended the Throne to cancel the original concession. The Manchu Throne took the advice. An Imperial Edict of September 23, 1905, transferred the right of construction to a provincial railway bureau which was organized to construct the road with Chinese capital only. Under this authority two companies—the Kiangsu Railway Co. and the

¹ *Far Eastern Review*, vol. vi, pp. 240-250. *China Year Book*, 1914, pp. 239-240.

² *Cf. infra*, pp. 133-135.

Chekiang Railway Co., were formed to construct and operate the whole line. The Kiangsu Railway Co. was organized with a capital of \$3,000,000 to take up the road between Shanghai and Fenching. The Chekiang Railway Co., operating the road from Fenching to Hangchow and Ningpo, was organized with a capital of \$5,000,000 all paid up.

The British Co. then awoke from its lethargy and protested very violently against this infringement of its rights. Under British diplomatic pressure the Peking Government had to agree to sign a loan agreement¹ with the British company for a 5 per cent Gold Loan of £1,500,000 for the construction expenses of the road on terms similar to the Tientsin-Pukow Agreement.² This loan was strongly opposed by the provincial companies on the following grounds:

1. As the British concessionaires did nothing during the ten years after the conclusion of the preliminary agreement in 1897, the concession has now lapsed.

2. In June, 1903, H. E. Sheng Hsuan-huai wrote officially to Mr. Brennan (the representative of the Corporation) to the effect that if the concessionaires failed to commence work within six months, then the preliminary agreement would be cancelled, but no reply was received from the representative nor was work begun at that time.

3. The Chinese Railway Cos. of Kiangsu and Chekiang have no need to float a loan from the said Corporation as was done for the proposed Tientsin-Chinkiang trunk line, for they have funds themselves to build the Soo-Hang-Ning Railway without assistance.

4. The natives of Kiangsu and Chekiang obtained Imperial permission last year to construct the railway with purely Chinese mercantile funds.

¹ *Chung Hwa Fa Kwei Tai Tsuenen*, Treaties, vol. xi, leaves 24-28.

² *Cf. infra*, pp. 136-138.

5. The Chinese Railway Co. at Hangchow has now completed the construction of the short railway from that city to Kianghu and has opened it to traffic as part of the section in Chekiang, while the company at Soochow is laying rails for the Shanghai-Sungkiang portion and preparations are being made to push them forward as soon as possible.

6. Although the proposed loan of £1,500,000 is to be guaranteed by the Provincial Governments of Kiangsu and Chekiang, yet, as both capital and interest will be repaid out of the profits of the railway in future, it is the same as placing it on mortgage.

7. As the construction of railways in China with Chinese money is an important matter, the Peking Government should exert itself to retain full control, otherwise the consequences will be greatly detrimental to both the country and the people.

Realizing the seriousness of the matter, the Central Government asked that the two provinces concerned send a deputation of delegates to Peking to state directly the case against the foreign loan. It might be remarked here that the delegation thus summoned was regarded as the beginning of provincial representation in the capital. The British Government, however, brought such a great pressure upon Peking that the Central Government, despite the decided opposition of the provincial companies supported by a unanimous public sentiment, had to complete the manifestly unfair loan agreement with the British company in March, 1908. A vigorous campaign in opposition to this action was carried on throughout the two provinces, and new efforts were made to raise money to operate the completed section of the road and to extend the line to Ningpo. In June, the Chekiang Railway Co. authorized an increase of capital of \$15,000,000 to be paid in five instalments. In response to the earnest appeal of the company more than 53,000 persons subscribed for the stock. Nearly 40,000 of the shareholders were laborers, farmers and small trades-

men. The first call on the new issue of \$3,000,000 has been paid in.

The Government was thus placed in a difficult position. A deadlock followed. After considerable delay the Government effected a compromise, by which the construction of the line was left in the hands of the provincial companies, while the Board of Communications allotted a certain sum of the British loan at $5\frac{1}{2}$ per cent interest, charging 7 per cent of the amount as premium.¹

Having ample funds to complete the whole road, the companies loaned the money to the local banks at a higher rate of interest than that exacted from them by the Government. In reality the money obtained from the British company was never spent on the road. Although the loan provided for the employment of a British engineer and the purchasing of materials through the British company, the provincial companies were very reluctant to permit the British engineer to inspect the line and had flatly refused to accept the purchasing agents' services. Consequently they had to pay the sum of \$250,000 Mex. in lieu of the 5 per cent commission for the purchasing agents' services stipulated in the loan agreement.

The Government from time to time vainly endeavored to persuade the British company that it should permit the Government to utilize the funds in other directions. The Government went on paying 5 per cent interest for five years until the line was nationalized in 1913.² The British never abandoned their hope of securing ultimate control of the line. This is the case of a forced loan! This is the lesson of "Might is Right"!

The section of the line from Shanghai to Hangchow, 116

¹ *Chung Hwa Fa Kwei Tai Tsueuen*, Treaties, vol. vi, leaves 28-30.

² *Cf. infra*, p. 128.

miles long with 36 miles of siding, is completed—the longest private road ever built by Chinese engineers with Chinese capital. A part of the section between Hangchow and Ningpo, a distance of about 112 miles, has been completed, but the road has not been competently managed. No dividends have ever been paid to the Kiangsu shareholders. The Chekiang Railway Co., however, has given its shareholders a guarantee of 7 per cent interest on the paid-up value of their shares,¹ this constituting a first lien on the revenues of the property.

V. *The Szechuan-Hankow Railway* ²

The history of the Szechuan-Hankow Railway is somewhat similar to that of the Shanghai-Hangchow-Ningpo Railway. The results of a foreign loan for the former were, however, much more serious than for the latter road. In 1904, a company had been organized by Hsi Liang, then Viceroy of Szechuan, in order to prevent a foreign loan being raised for the construction of the line. Shortly afterwards the services of two Chinese engineers (American students), Messrs. Hu and Luk, were secured to survey the line, but nothing developed from the survey. The policy of the company at that time was to defer work until sufficient funds were in hand to complete the section from Ichang to Kweichow, a distance of about 100 miles.

In 1906, the people of Szechuan and Hupeh took into serious consideration the matter of constructing this road, and some \$600,000 Mex. was subscribed to promote the construction of this line. A college was also established for

¹ The word "shares" as employed in the reports of this company is misleading as the so-called shares are in reality debentures with a priority over any further loans.

² *China Year Book*, 1914, pp. 233-4; Anderson, *Railway Situation in China*, pp. 16-18.

training railway engineers. Although agitations from those who wished to see the railway built with native capital broke out from time to time, nothing was actually done on the road until 1909 when the Four Nations' Loan question came up, whereupon a considerable amount of capital was raised in Szechuan and spent upon it.

At a meeting of shareholders held in November, 1909, the accounts submitted showed that a sum of Tls. 15,405,902 had been collected in shares, of which only 28 per cent had been subscribed voluntarily, the greater proportion of the remainder having been collected as "tsu ku," *i. e.*, shares given in exchange for forced levy, payable by every landholder in the form of an addition to his land-tax. Offices were established in the different districts to collect the land-tax shares, and as there are over 100 districts in Szechuan, that number of offices were established. Each office was allowed Tls. 200 on every Tls. 10,000 worth of shares collected—the allowance covering the cost of remitting the share money and other sundry expenses.

During 1910, work was pushed on with great energy. Construction was in progress for a distance of 80 miles from Ichang toward Kweichow. In May, 1911, when the Four Nations' Loan was concluded by the Government the dissolution of the company was threatened, a national revolution precipitated, and work interrupted. After the revolution the line was taken over by the Government.¹

This record of the above-mentioned enterprises is sufficient to show that the people are more and more interested in railway matters and that the pressure from the people in favor of railway construction, taking the country as a whole, is growing. At the present, as the Government upholds its nationalization policy, a notable feature of the

¹ Cf. *infra*, p. 129.

situation is the comparatively rapid development in different parts of the country of the desire for railways tributary to the lines already constructed. This shows also an appreciation of the need, in the development of local industries, of close and convenient connections with trunk lines. Many cities are coming to appreciate the fact that they must have railway connections at once or their present share of the trade of the country will be lost. In fact, a number of small lines have been either projected or are in the course of construction; many new enterprises have been inaugurated, and many ambitious plans are laid out.

But in almost every case work has been either suspended or delayed due to the lack of funds on the part of the promoters and, also, to the difficulty of raising the necessary money. The fact that some of the railways already in operation have been poorly managed or have been operated under conditions that make it impracticable to secure fair returns on the capital invested in them is a constant discouragement. These and other causes have led the Government to take over all trunk lines which have been undertaken by private entrepreneurs, especially those which have been unduly delayed in execution.

Nevertheless, the demands of trade in the interior are becoming more pronounced in favor of more rapid, safer, and better communication. Public sentiment is steadily preparing for tremendous railway development. It is undoubtedly true that the technics of railroad financing, construction and management must be learned by the Chinese railroad men. As China has the experience of other countries for her guidance, in time this problem will be solved one way or another. The question of state regulation, especially financial regulation, of private enterprises, has been taken up seriously by the Government but has not been solved satisfactorily. The most important question facing the country

is that of healthy financing and rapid construction. To give encouragement to the private enterprises, far-sighted and systematic management on the part of the railway managers and intelligent legislation on the part of the Government are factors absolutely indispensable. As provision is made by the Government whereby private companies may undertake the construction of branch lines, in the future private capital will be used almost wholly for developing the local interests.

CHAPTER VII

THE RAILWAYS BUILT BY THE GOVERNMENT

WE have studied some of the loan-built railroads in Chapter V. We will consider the others later. All these roads, which are now or have been supervised jointly by Chinese and foreigners during construction or in operation, are considered Chinese Government railways.¹ If the *status quo* of China can be maintained and in course of time the loans repaid these roads will be, sooner or later, entirely at the disposal of the Government. The Peking-Hankow road has been repurchased by China. Others will be redeemed later. In addition to these there are two Government railroads which were built under purely Chinese supervision with Chinese capital. Now we are in a position to consider these two roads.

I. *The Pinghsiang-Chuchow Railway* ²

This road was surveyed by American engineers under Mr. Wm. Barclay Parsons in 1898, when the reconnaissance was made for the Canton-Hankow railway. Construction work commenced in 1899. It was built by Chinese and American engineers with Chinese capital and is 70 miles long connecting the An-Yuen coal mines under German operation at Pinghsiang with Chuchow, a small town on the Hsiang-

¹ See *China Year Book*, 1914, pp. 219-234.

² This road belongs to the 2nd Period. It is placed here simply for the purpose of grouping under this heading. Reference: *Far Eastern Review*, Nov., 1909, pp. 318-319.

Kiang River through which coal is shipped to the Hanyang Steel and Iron Works.

A college of engineering, mining and language was established, in which Chinese students are trained for the many branches of work which require a more skilled labor. With the exception of the heads of the important departments the railroad engineers, conductors, *etc.*, are all Chinese.

The cost of constructing the entire line was approximately Tls. 3,600,000 (roughly £7,000 per mile). It is interesting to compare the cost of this road to that of the Peking-Syndicate road which was constructed under purely foreign supervision with foreign funds. Both roads were built with the same objective—the transportation of coal from the mines to a navigable river. The Peking-Syndicate road has cost the Government £6,830 per mile for its transfer, or, allowing for certain contingencies, the same as the Pinghsiang line.

II. *The Peking-Kalgan Railway*¹

The construction of this line was commenced from Peking in October, 1905. Nine months later, the Nankow Pass was reached, a distance of 32 miles, and by the end of 1909 the whole line was completed. Its total length is about 130 miles, extending to Tatungfu in the Province of Shansi. There are many weighty facts of construction, including tunnels, at the Nankow Pass, where a gradient of 1 in 30 for five miles has been introduced. Mr. Jeme Tien-yow, a Yale graduate, was appointed as the Chief Engineer to undertake the construction work. When the construction of the line was first proposed many people believed that the Nankow Pass would present insuperable difficulties from the engineer's standpoint. When Mr. Jeme succeeded in com-

¹*Far Eastern Review*, Nov., 1909, pp. 320-328.

pleting this important work he was hailed throughout the world as the "father" of Chinese railway engineers, and honors were heaped on him by his fellow-countrymen and by his Government.

The line was built entirely under Chinese supervision and from the surplus profits of the Peking-Mukden Railway. In the construction of this line there are several features which render it distinct from other railroads in China :

1. It is the first Government railroad built entirely by Chinese—not a single foreigner has been employed. This is a national pride. The successful manner in which the construction work has been carried out is a striking object-lesson of what can be accomplished by the people of China who have received a technical training. It acts also as an incentive to other Chinese enterprises.

2. It was the most serious engineering proposition ever undertaken in China. In the Nankow Pass, besides the steep gradients and a number of sharp curves, heavy cuts and fills were required and four tunnels, the total length of which is 5,370 feet, had to be pierced. Furthermore, the engineering difficulties in the Kiningyih-Kalgan section of the line were almost as serious as those of the Nankow Pass.

3. Considering these engineering difficulties, the substantial character of the road and the low cost of construction (under £10,000 per mile), it may be said that this road has established a record in mountain railway building. This at the same time shows that there was strict honesty in supervising the work. "Economy on the Peking-Kalgan Railway has been almost reduced to a science," says the *World's Chinese Students' Journal* of Shanghai (1909).

The road is of great political importance. It facilitates communication between Mongolia and China proper. Russia has endeavored to undermine the loyalty of the

tribal chieftains in Mongolia. When the road is ultimately extended to Urga (the capital of Outer Mongolia) and to Kiakta (the frontier town), China will be able to strengthen her control over that vast region.

The road has also great commercial value, for it taps the overland trade of North China and Mongolia. With the completion of the road, Kalgan, the great soda-manufacturing center and the seat of extensive transit trade between North China and Mongolia, will present a different prospect and undoubtedly become very prosperous. As to the line itself it supports its upkeep very satisfactorily. In 1911, the net revenue of the line amounted to over \$3,500 Mex. per mile, and in 1912 to \$9,000 per mile—a good result. The surplus is being used to extend the line.

CHAPTER VIII

NATIONALIZATION OF RAILWAYS

THE policy of nationalizing the railways which form the different sections of the future trunk systems became more definite and prominent in 1911, when Mr. Sheng Hsuan-huai headed the Ministry of Communications and Posts.¹ The memorials of the Tsung-li Yamen and the Board of Mines and Railways, and of such prominent men as Li Hung-chang, Chang Chi-tung and others, presented to the Manchu Throne, and the Imperial edicts given out correspondingly from time to time, seemed to indicate the existence of such a policy; nevertheless, it was not considered seriously in those days. Mr. Tsen Chun-hsuan, who held the post of the President of the Board of Communications for a short time in 1907, had also petitioned the Throne suggesting the advisability of having China's railways under proper unified control with a proper system,² but again his views were not taken into serious consideration. Mr. Tsen did not suggest the taking over of the private roads.

Mr. Sheng's policy was to have all trunk lines built, operated and controlled by the Government and to have those under private construction resumed by the State.³ In order

¹ By an Imperial Edict of Nov. 6, 1906, which was issued to reform the Metropolitan official system, the Board of Communications and the Board of Navy were created to control the services and systems of telegraph, steam navigation, railway and post.

² English translation of the memorial, in *Journal of the American Asiatic Association*, Feb., 1910, p. 14.

³ Cf. *infra*, pp. 116-117.

to explain how this important policy came about and to note its effects upon the national life of China, it is desirable to record the essential facts which occurred after 1906 in regard to the railway.

I. *The Conflicts of Interest*

After 1906, as we have seen, a number of provincial companies came into existence, mostly for patriotic reasons. Some of them secured concessions directly and some of them indirectly through the provincial Administrations from the Central Government which at that time had no definite idea whatsoever of state ownership or of central control of trunk roads. It granted concessions to the provincial companies simply with the expectation of constructing the railways by its own people, thus preventing the trouble of raising foreign loans and eliminating foreign control. Hence, even some of the trunk lines were granted to the provincial companies for financing and construction. The Shanghai-Hangchow-Ningpo, the Canton-Hankow, the Szechuan-Hankow, the Tungpu and the Lotung lines were the most notable instances. But later on when it was discovered that the provincial companies had not carried out the work satisfactorily and the construction of the lines was either too slow or totally suspended, the Government began to change its attitude towards them and planned to cancel the provincial concessions.

Meanwhile, the country was in a precarious situation. China's neighbors made trouble with her. Japan on the Yalu, Russia on the North, France and Great Britain in Yunnan and Kwangsi had all raised boundary questions. Internal troubles arose everywhere. Secret societies in the South were particularly active aiming to overthrow the Manchu dynasty. From every point of view further humiliation of the country seemed inevitable and days of

trouble for the Empire were not far off. For the sake of preserving the prestige of the dynasty and the safety of the country, the Government realized that at the critical moment a show of force must be made.

The new army of thirty-six divisions had already been successfully centralized under the command of the Minister of War instead of being placed under the command of the several governors and viceroys separately as it was before. But the lack of transportation with the South and the West would render the mobilization of this army impossible. Such a condition demanded the construction of the lines linking the four quarters of the country without delay. As the provincial companies could not accomplish what the Government expected them to do, naturally the Government stepped in to take the matter up itself and adopted the same policy with regard to the railway as to the new army.

But the Treasury was empty. It was impossible for the Government to accomplish its object without raising loans abroad. Therefore, on June 6, 1909, Chang Chih-tung, then Grand Councillor, signed a preliminary agreement with the representatives of some British, German and French banks for a loan of £5,500,000 for the construction of the Hupeli-Hunan section of the Canton-Hankow line, the Hankow-Szechuan road and for other expenditures. These two roads are of national importance. The former when completed will connect Peking with Canton, while the latter will connect Chengtu (the capital of Szechuan) with Hankow (the Chicago of China).

Since an agreement had been made on October 1, 1903, between Prince Ching, then President of the Foreign Board, and Sir Ernest Satow, then British Minister at Peking, stipulating that American capital might be admitted to the Szechuan road, a group of American financiers accordingly wanted to co-operate in the loan. China was glad to have

American participation in the loan, because she has more confidence in the United States than in any other country. But the three banking groups, who had already secured the concession, refused to admit a new partner. The State Department of the United States then came out and exerted its influence for the benefit of a particular syndicate¹ which it designated to take up the loan. The basis for intervention on the part of the American Government was the promise made by Prince Ching in his Red Note of July 18, 1904, to the American Minister, Mr. Conger, replying to the application of the China Investment and Construction Co. for a loan concession for the Hankow-Szechuan road. After much tedious diplomatic negotiation² the United States succeeded in her demands for participation in the loan. On August 17, 1909, another contract was drafted by which the loan was raised to £6,000,000, divided equally among the four groups; hence it is called the "Four Nations' Loan."

But the matter was not settled. Russia and Japan, who have not sufficient funds to exploit their own resources and no money to lend, also desired to participate in the loan, and urged a further increase of the amount of the loan. Further discord arose. The loan was thereby temporarily suspended. International controversy then followed. Severe accusations were exchanged between the Powers. We will study this phase of the controversy in connection with the loan later. Its brief outline is mentioned here simply for the pur-

¹Secretary Knox turned the financial negotiations over to the Wall Street bankers, headed by J. P. Morgan & Co., and advised them to put in a claim for participation, at the same time ignoring the claim of the China Investment & Construction Co., which had secured the original promise from the Chinese Government. Members of the latter company severely criticized Secretary Knox for favoring the former. See *Wall St. Journal*, Feb. 15, 1910.

² Cf. *infra*, Hukuang Railways.

pose of showing its effects upon the people of China and its relation to the nationalization program.

The threatening actions of Russia and Japan, the quarrels and turmoil among the Powers themselves, and above all the shaking of "mailed fists" at China by the aggressive Powers produced a bad impression upon the children of China who suspected that there were pernicious schemes planned by the aggressive Powers. Meetings were held everywhere. Many Railroad Associations were formed to recover the sovereign rights. Patriotic subscriptions were made for the building of the two roads. Telegrams and petitions of protest were sent from all classes of the people to the central authorities. The students and gentry of Hupeh and Hunan warned Peking that they would resist the construction of any railroads in their provinces unless the terms of the loan contract were first submitted for the approval of the provinces concerned. As in the case of the Shanghai-Hangchow-Ningpo road, delegates were sent by the two provinces to the Central Government to state their cases against the loan. According to the telegrams sent to Chang Chih-tung and the Board of Communications and Posts they protested against the loan on the following grounds:¹

1. Foreign loans had always proved detrimental to Chinese political interests.

2. Since over eight-tenths of the Chinese railroads were controlled by foreign Powers, further alienation would prove harmful.

3. By the Imperial Edict of 1899,² prepared by the Bureau of Mines and Railways, Chinese were to have prior right in the construction of their own railroads.

¹ *Journal of the American Asiatic Association*, Oct., 1911, vol. xi, no. 9, p. 277.

² *Cf. supra*, pp. 37-39.

4. The Provincial Railway Association guaranteed to raise the necessary amount of money, if privileges and allowance of time similar to those granted to the foreign Powers were accorded to it.

The provincial attitude was so determined and so firm that the ratification of the loan was further delayed. On the other hand, the loan Powers, except the United States, demanded its early ratification by addressing an incidental note to the Waiwupu. The Peking authorities were thus placed in a very delicate and difficult position. Another deadlock similar to that of the case of the Shanghai-Hangchow-Ningpo road was followed for more than one and a half years by patriotic agitation on the one hand in the provinces concerned and by diplomatic controversy on the other in Peking.

Meanwhile, heroic measures were taken by the two provinces to raise the necessary annual allotment on the shares in order to construct their portion of the southern trunk line. But the materialization of the funds was slow and a slight progress in the construction work was made only with waste and extravagance. Agitations, however, still continued and spread far and wide with great rapidity.

The people of China now as a whole feared that the nations which advanced the money would obtain internal control over the affairs of the country and that the application of the Hukuang Loan (*i. e.*, Four Nations' Loan) would be but the fastening of the last nail in the coffin for China. They denounced the action of the Government as a grave blunder. The suspicious procedure in the loan negotiations and the pretensions of Russia and Japan added "oil to the flames". The people then demanded a more intimate acquaintance with the management of the affairs of the country. The Manchu Throne was compelled to grant on Octo-

ber 14, 1909, the establishment of the National and Provincial Assemblies. The provinces' persistent opposition to the humiliating foreign loans had given impetus to the constitutional movement.

Nevertheless, each province was desirous of building its own railroads and of making out of them whatever profits might accrue. Grand Councillor Chang Chih-tung had formulated a scheme, generally acceptable to the provincial delegates at Peking, whereby the profits and control of the Government railways would be divided upon a prearranged scale between Peking and the provinces concerned. Had his death in October, 1909, been deferred, the loan question would have been solved without serious conflicts.

It is desirable to point out here that it is a false belief that the people of China are opposed to all foreign loans. They opposed some particular loans only, which were negotiated under suspicious circumstances and humiliating conditions. As a matter of fact, the provincial companies, who have endeavored to secure foreign loans on their account without vexatious financial supervision, hawked their securities in the money markets in Shanghai and elsewhere in China. Simply because of the formal declaration of the Imperial Edict, attached to the railway regulations¹ prepared by the Board of Mines and Railways, that provincial loans or loans raised by any Chinese merchants which have not been sanctioned by the Central Government would not be recognized as Imperial liabilities, and for the lack of sufficient guarantees and proper information about their financial condition, these securities were rejected by the foreign banks and commercial houses.

Nevertheless, the provincials continued their campaign of

¹"Revised Regulations for Railway Construction in China," U. S. *Monthly Consular Reports*, Apr., 1904, vol. lxxv, no. 283.

agitation and forced the Peking authorities to recognize their rights to build the roads as provincial undertakings. The Peking Railway Administration was at the same time accused of corruption and graft. On the other hand, the Central Government, anxious for the application of the Hukuang Loan and the centralization of the railways, declared that the provincial railway administrations could practically accomplish nothing but flagrant dishonesty and waste of money and time.

While the provinces insisted upon the recognition of their sovereign rights, the Central Government intended to establish its authority more strongly all over the country. It was too weak, however, to impose its Imperial will on the provinces against their protests. None of the responsible chiefs of the Boards of Finance and Foreign Affairs, not even the Prince Regent and the Grand Councillors, endeavored to stand out and meet with courage the revolt in Hunan and Hupeh, threatened if this course were pursued. They put the responsibility upon the nation and the obligations toward the foreign Powers upon the shoulders of the President of the Board of Communication and Posts. As the Board of Communications and Posts was the storm center no official, willing or strong enough to assume any responsibility, could be found to preside over it. This explains the short terms held by Mr. Sheng's predecessors in this office, most of whom were sacrificed to the hostility and intrigues of the provincials. In 1910, as we remember, when the Ministry of Communications proposed to nationalize the Shanghai-Hangchow-Ningpo road, agitation was so strong that it had already practically led to and later culminated in a revolt.

When Mr. Sheng Hsuan-huai was raised to the Presidency of the Board of Communications in January, 1911, he proved himself courageous enough to carry out the Imperial will. Mr. Sheng was regarded with great esteem by

the Peking authorities because of his intimate relations with the Hukuang gentry.¹ His ability was recognized by foreigners and Chinese alike, and he was depended upon to win over the people and thus overcome their hostility to the Hukuang Loan, the terms of which could not be altered at that time because the foreign banks considered them already too liberal for the safeguarding of their investments. But, unfortunately, he was not strong enough, or rather the Government was not strong enough to support him, and his records in the administration of the China Merchants' Steam Navigation Co. and of the Imperial Telegraphs were not clean enough to secure the confidence of the people.

To make matters worse, within four months of office he had produced in the history of China an extraordinary period of frenzied finance and had increased China's indebtedness on paper by £17,500,000 sterling.

On March 24th, a loan of Yen 10,000,000 from the Japanese and on April 7th, another of £500,000 from the Eastern Extension and Great Northern Telegraph Cos. were floated by him for the purpose of defraying the expenses of the Board. By April 18th, he had contracted with the Four Nations' Banking Group a loan of £10,000,000,² thirty per cent of which was to be expended for Manchurian development, the balance for currency reform. The people were greatly excited by the announcement of the latter big loan. They sent to Peking violent protests which the Government ignored until too late.

After having concluded the above successfully, Mr. Sheng then turned his attention to the perplexing railway prob-

¹ The Pinghsiang Colliery and Railway, the Tayeh Iron Mines and the Hanyang Iron & Steel Works, all located in Hunan & Hupoh, had been managed by Mr. Sheng.

² This loan was not floated owing to the Revolution of 1911. See *China Year Book*, 1914, chapter on Finance.

lems. He decided to have the question of authority cleared up once for all and definitely settled between the provinces and Peking, because in almost every case the provinces opposed the application of such foreign loans as were handled through the central authorities. He knew well that until this vital question of provincial and central rights was solved one way or the other, railway development throughout the whole country would remain at a standstill.

Realizing that, without a more effective control over the loan funds, the foreign financiers would never agree to advance the vast sums required for reorganization and reform, and aiming to carry out the Imperial desire which embodied an active federal policy of strengthening the Central Government immediately after the organization of the Council-Cabinet,¹ Mr. Sheng chose the method of centralization in dealing with the railways. The policy of centralization of the control of railways was then clearly outlined. With the support of Prince Ching's Cabinet he obtained the approval of the policy from the Throne which had been convinced of the disorganization and weakness resulting from the failure of the provincial companies' attempt at railway construction. On May 9, 1911, a most important Imperial Edict² was issued on Mr. Sheng's advice, proclaiming in part as follows:

After careful and repeated deliberations, the nation must possess a complete system of trunk lines to and from the four quarters of her territory in order to administer the Government by a grasp on the central pivot. . . . Therefore, we desire to proclaim explicitly to the world that all the trunk rail-

¹ The Edict, abolishing the Grand Council and organizing a Cabinet, was issued on May 9, 1911, while amendments were made in the Assembly regulations giving greater power to the people. See *Peking Gazette* of May, 1911.

² *Ibid.*

ways shall be State-owned; this shall be the fixed policy. Whatever trunk railways in the provinces which were under private management by companies established before the third year of Hsun Tung (1911) have delayed in construction long enough, they shall immediately be taken over by the Government as State-owned, and their building work shall be pushed on with energy. With the exception of the branch railways which shall continually be allowed to be undertaken by the people according to their ability, all cases of trunk railways formerly granted shall be cancelled. With regard to the details in the manner of taking them over, let the Ministers of Finance and of Communications and Posts gravely obey this Decree, and devote their whole attention to devising the fulfilment of it. . . .

Following this Edict another Imperial decree, purposing to prevent any local manipulation of local shares, was issued prohibiting the sales of railway shares in the provinces of Hunan, Hupeh and Szechuan and directing the viceroys and governors to assume responsibility for the maintenance of order and the protection of officials engaged in the nationalization of the Canton-Hankow and Szechuan-Hankow trunk lines and the carrying out of the construction program. Mr. Tuan Fang was then sent to Hupeh, Hunan and Szechuan to explain the Government railway policy and was appointed Director-General of these two lines with the authority to handle their transfer. Also, all provincial and railway officials were instructed to facilitate this transfer. Mr. Tsen Chen-hsuan was despatched, as Viceroy of Szechuan, to replace Mr. Chao Ehr-feng.

Twelve days after the proclamation of State ownership of railways the signing of the Hukuang Loan of £6,000,000 was announced. This loan was to be floated by the Four Nations' banks. It had been under negotiation for two years and was the crux of the contentions between the prov-

inces and the Central Government, between the Government and the Powers interested and among the Powers themselves.

The Hukuang agreement and the nationalization edict were regarded by the Provincial Assemblies and the Railway Bureaus as successive direct challenges and breaches of promises by the Government. Protests came to Peking from almost every Provincial Assembly, from almost every railroad company and from different kinds of associations and newspapers. The Government was accused of breaking its promise to cede the people the right of consideration of national affairs, of floating loans and of depriving the Chinese of the right to build their own railways without placing the questions before the National Assembly for consideration and approval. Delegates were appointed by various "Railway Protection Societies" to visit Peking, to present their argument against the foreign loans, *etc.* Their first intention was to oppose absolutely foreign loans. When they reached Peking, however, they modified their attitude to a claim that the various matters under protest should be decided by the National Assembly and that the Government should abide by its decision.

Pending the deliberation in Peking, matters in the provinces went from bad to worse. The methods adopted by the Government for taking over the provincial interests were defective in many respects and appeared unjust to the eyes of the private owners. The principle outlined for redeeming the various lines from the private owners was to pay the shareholders in cash the actual value of their property as constructed up to the time of transfer, and further to repay to them out of the prospective profits of the road any money that had been wasted or otherwise lost in the enterprise.

For the redemption of the Hunan-Hupeh section of the Canton-Hankow road the Government was to pay the share-

holders cash to the amount of 60 per cent of their share script, and to give them bonds for the other 40 per cent, payable out of the future profits.¹ It seemed at one time that the financial interests in Hunan and Hupeh were at the point of accepting the terms offered and that the people there might possibly have been pacified.

But the Government was not willing to pay the shareholders of the Szechuan-Hankow road what they wished in cash because only a very little actual construction work had been done by the company. The Government proposed to settle with the shareholders by making good the funds, which the company had wasted, out of the future profits of the road. The Szechuan Railway Bureau strongly objected to this method of settlement with the shareholders. The Government, on Mr. Sheng's advice, acted with firmness and with no intention of changing its plan in the impending crisis. Agitation was then directed against the manner in which the policy of nationalizing the railways was carried into effect by Mr. Sheng Hsuan-huai.

To make matters worse, Mr. Tuan Feng (who was later murdered by the Szechuan people) and Mr. Tsen Chen-hsuan had brought troops with them upon their mission. This startled the already angered populace in Szechuan and elsewhere. The people of Szechuan then demanded an explanation of such an action. The reply was unsatisfactory. Therefore, they suspected that the real reason of the Government's wish to secure control of the railways was to use them for military purposes in keeping the people in subjection. The Province of Szechuan passed from agitation to revolt. The avowed revolutionists and constitutionalists lost no time in taking the long and eagerly looked-for opportunity of carrying on a hot campaign against the

¹ U. S. *Daily Consular and Trade Reports*, Sept. 9, 1911, no. 219.

Manchu Throne. From city to city, from province to province, the fire continued to spread. On October 10, 1911, the explosion of a bomb in the city of Wuchang, capital of Hupeh, signaled the downfall of the Manchu dynasty; and the world was astounded by the most remarkable revolution of modern times.

Subsequent events showed, however, that not all the people opposed the nationalization policy as such. Most of them opposed it because of the manner and method by which the policy was carried out. To say that the revolution was caused entirely by Mr. Sheng's policy or by the conclusion of the Hukuang Loan Agreement is to misread history. By article III of the Loan Agreement,¹ it had become incumbent upon the Government to take over the lines already constructed in Hupeh and Hunan. This was resented by the shareholders, who showed their dissatisfaction in the usual way. The differences over the matter would no doubt have ultimately been settled had not other forces such as floods, famine and, above all, the revolutionary campaign which had been at work for years seeking to overthrow the Manchu dynasty and to restore Chinese control, united to make the revolution popular.

II. *The Government's Railway Policy*

During the Revolution of 1911, the Provisional Government at Nanking under Dr. Sun Yat-sen had been prepared to pledge to the Japanese independent bankers for whatever loans they could raise the properties of the China Merchants' Navigation Company, the Kiangsu, Chekiang, Kiangsi, Fukien lines and the southern section of the Canton-Hankow road, the Hanyang Coal, Iron and Steel enterprises and other mining and industrial companies.

¹*Cf. infra*, Hukuang Loan Agreement and References.

These loans were, however, checked by the Government at Tokio, owing in some cases to the protests of the British and of other foreign governments. Out of the efforts made by the Nanking Government to raise foreign loans only a few negotiations were successfully concluded and only small advances were obtainable.¹

After his resignation from the Provisional Presidency, in September, 1912, Dr. Sun was empowered by President Yuan Shi-kai to organize a national corporation or company for the financing and construction of future railways in China. The Chinese National Railway Corporation was thereby organized at Shanghai with Dr. Sun as its Director-general. Dr. Sun then appointed Mr. George Bronson Rea ² as Technical Secretary. The plans of the corporation were accordingly outlined comprising a comprehensive scheme ³ for the construction of 10,000 miles of essential trunk lines which were to be financed and constructed over a period of from ten to fifteen years, calling for an expenditure of approximately £100,000,000.

Mr. Rea was then delegated by Dr. Sun to visit Europe and initiate negotiations for financing the contemplated lines. Mr. Rea succeeded in arranging a contract on a percentage basis with Messrs. Pauling & Company, a great railway contracting firm of London, for financing and constructing the Canton-Chungking line.⁴ The contract was signed at

¹ *Far Eastern Review*, Apr., 1912, special copy on "Financial and Historical Review of the Chinese Revolution."

² Mr. Rea is the proprietor and editor of the *Far Eastern Review* (Shanghai), a monthly devoted to Commerce, Engineering and Finance in the Far East.

³ For details of the scheme see *China Year Book*, 1914, chapter on Communications. For map of the scheme see *Far Eastern Review*, June, 1913, p. 15.

⁴ Cf. *infra*, pp. 160-161.

Shanghai on July 4, 1913, between Dr. Sun and Lord French, the representative of the Pauling firm. Later when Dr. Sun was implicated in the Second Revolution against President Yuan his powers as Director-General of the Chinese National Railway Corporation were annulled by the President in a special mandate issued two days after the outbreak of the revolution. The Corporation was thereby dissolved. The contract, which was regarded by Mr. Rea as creating a new precedent for the construction of railways in China "because of the most favorable financial and construction terms ever accorded to any government for this kind of work," was transferred with little modification by the Peking Government to the Shasi-Shingyifu Railway.¹

Although the form of government was changed, the policy of centralization could not and most probably will not be changed for generations to come. From the beginning of the new Republic the difficulties of central control of finance were felt. The determination of the Provisional Government at Peking to retain all borrowing powers in the hands of the Central Government was strongly resisted by some of the financial interests in the provinces and a certain political party, who endeavored to assert their right to independent financial operations and loans raised on provincial securities. This and other causes precipitated the Second Revolution on July 18, 1913.

Since the First Revolution merchants and others had suffered bitterly by the disorganization of commerce and the unsettled state of the country and had hoped for the permanent removal of disaffection, a chance to return to security, and a distinct promise of the general resumption of business. With the disappearance of the Manchu dynasty as a common ground of opposition the Second Revolution

¹ Cf. *infra*, p. 159.

lacked support from the people and was soon suppressed. The result was the dissolution of the Kwok Min Tang (the Young China Party) and the Parliament, and the formation of the Central Administrative Conference. The period between the First Revolution and the Second Revolution may be called a period of two years' conflict between the different political parties and between the Central Government and the provincial interests—a period of practical deadlock.

With the inauguration of the Republic after the Second Revolution the Central Government was left without funds and was confronted with immense liabilities. The provinces failed to contribute their quota of revenue. The Government was thus forced to turn its attention to foreign loans in order to eke out its existence. The Crisp Loan, the Reorganization Loan, and several small loans were thus contracted.

In the meantime the Government struggled to solidify its position. After exerting much energy and overcoming much trouble it succeeded in centralizing the financial control to a certain extent. The Minister then took an important step in defining clearly the central and provincial powers with regard to financial control in a set of instructions¹ issued to the provinces. The essential instructions are as follows:

1. No province will be allowed to contract foreign loans after June next year (1914).
2. With the exception of industrial loans, the amount of a loan should not exceed \$3,000,000 (Mex.).
3. The proceeds of the loans should be used only for military expenses, returning overdue loans or paying other unavoidable expenses. The ordinary administrative expenses

¹ *Far Eastern Review*, Nov., 1913, p. 211.

should be defrayed by the revenues of the province, and no loan should be used for administrative purposes.

4. Before concluding a loan, the province should first report to the Ministry of Finance the source from which the repayment of the loan is to be made.

5. No revenue which is included in the class of national tax should be used as security for loans by the provinces.

6. Before signing a loan agreement, the draft of the agreement should be approved by the Ministry of Finance.

7. A comprehensive and detailed statement of the expenditure of every loan should be submitted to the Ministry of Finance.

Also, in view of the troubles involved in the foreign loans raised by the private entrepreneurs, such as in the cases of the Kiangsu Railway Company,¹ the Hanyihping² and other loans, the Government has drawn up a new set of regulations governing the conditions under which merchants may contract foreign loans. The regulations³ issued in March, 1914, are as follows:

1. Any merchant who borrows foreign loans to undertake business, no matter whether the loan is a new one or has been discussed in the past, should first make a report to the Ministry to whose control his occupation is subject.

2. When circumstances necessitate the merchant making a foreign loan, he should first make a report to the Ministry stating its use and the source from which he can derive money for its repayment.

¹ Cf. *infra*, p. 128.

² The Hanyihping Co., *i. e.*, Hanyang Steel Works, Taiyih Iron Mines and the Pinghsiang Colliery, had arranged a loan of Yen 15,000,000 with Japanese financiers. Sheng Hsuan-huai, who fled to Japan when the first revolution broke out, was accused of negotiating for the disposal of his shares to the Japanese. Thus a storm of protest arose. The Government was dragged in and asked to take over the enterprise.

³ *Far Eastern Review*, March, 1914, p. 395.

3. Merchants who have been allowed by the Ministry to make foreign loans should submit the agreement for such loans to the Ministry for its approval. No agreement should be considered as valid if it is signed before the Ministry approves it.

4. Before the signing of an agreement, the merchant should first inform the Ministry, which will send a delegate to witness the signing, and no loan agreements shall be considered as valid unless they have been subjected to the above processes.

The Government has also issued a lengthy statement¹ dealing with its different schemes for financial relief, its policy towards military administration, industrial development, *etc.* In addition, its policy towards the means of communication was finally set forth as follows:

We will be careful regarding State enterprises. The Government will only undertake such projects as must be managed by the State, while other business enterprises will be left to the people. The Government will not compete with them, but it will guide and encourage them . . .

Railways, navigation, postal and telegraph administration are yet in the budding stage, and great possibility lies before them. We will draw a comprehensive scheme and decide upon the order of development according to the relative importance. The most important thing is to train men for the work. They should be equipped with technical education. We will welcome the investment of foreign capital in communication enterprises, provided that there is no political significance. Special accounting methods will be employed by the Ministry of Communications because of the enormous amount of foreign loans connected with the railways and the like. All accounts should be strictly supervised by the Government. . . .

Since the inauguration of the Republic the public has

¹ English translation of text of statement, in *Far Eastern Review*, Nov., 1913, pp. 211-214.

realized the necessity of building more railways and the idea of inviting foreign capital for the development of railways has become deeply rooted in the mind of the public. Hence the above statement regarding the railways.

With the announcement of the policy regarding the railways, measures were taken by the administrative authorities of the Ministry of Communications to unify the accounting and statistical systems for China's railways. This was regarded as a forward movement for more effective control of all Government railways and as a first effort made to introduce all-round standardization of things connected with the railway.

A conference was inaugurated with Mr. Yih Kung-chao, vice-Minister of the Ministry of Communications and Director-General of Railways, as chairman, and Dr. C. C. Wang as vice-chairman. Dr. Wang was the leading spirit of this movement. A number of the members of the Ministry interested in accounting and the chief accountants of the different railways were then appointed as members of the Commission on the Unification of Railway Accounts and Statistics. Dr. Henry C. Adams, the expert in charge of railway statistics and accounts of the United States Government, was engaged as Adviser.

The success made by the Commission in overcoming the many peculiar difficulties arising from the different nationalities and languages involved and the established habits and methods in keeping accounts of the different railways was hailed with praise from many quarters as a precedent for such an undertaking not only in China but also in other parts of the world. To illustrate the difficulties confronting the Commission, in the conference three languages, *i. e.*, Chinese, English and French, had to be used for discussion.

A distinct movement made by the Republican Government was the great allotment of railway mileage to foreign

syndicates. Up to end of the year 1913, the new Government has approved approximately 3800 miles of railways to be constructed with foreign capital. The new lines arranged for during the year are as follows :

1. The Tatung-Chengtou Railway, 1,200 miles, granted to the Société Générale de Belgique.
2. The Pukow-Sinyang Railway, 350 miles, the Chinese Central Railway Co., Ltd., of London.
3. The Shasi-Singyi Railway, 760 miles, contracted with Messrs. Pauling & Co., Ltd., London.
4. The Tsinan-Shunteh & Kaumi-Hanchwang Railways, 300 miles, conceded to German syndicate.
5. South Manchuria Ry. Feeders, 1,200 miles, Japanese interests.

The extent of new lines under construction during the year was as follows :

1. The Hukuang System, 1,200 miles, Four Nations' Group.
2. The Kalgan-Tatung Railway, 100 miles, practically completed by the Government itself.
3. The Lung-Tsing-U-Hai Ry., 1,500 miles, Franco-Belgian interests.

The above concessions show that the Government has pursued a policy intended to co-ordinate its existing railway systems and to bind them by judicious connections into as complete and effective an organ of communication and development as indicated in the statement of its general policy. In addition to these concessions the Ministry has also drawn up plans for the construction of all important lines. It has been estimated that the mileage of these proposed lines is many times longer than before.

The new Government has also determined to take up what the Manchus have left undone, *i. e.*, to nationalize all

provincial railways which form sections of the future trunk systems. Mr. Sheng's policy was to be pursued. The first step made was to take over the Shanghai-Hangchow-Ningpo Railway.

The Shanghai-Hangchow-Ningpo Railway. As pointed out in Chapter VI, the management of this road was unsatisfactory and the late Government had already made an attempt to nationalize it in 1910. When the Revolution Government at Nanking was in dire need of money the Kiangsu Railway Company, for patriotic reasons, signed a loan agreement with Okuma & Company, one of the largest Japanese engineering concerns, to advance Tls. 3,000,000, at par, at 8 per cent interest, secured on the revenues and physical property of the Kiangsu section of the line. Owing to the protest raised by the British Government, which pointed out that the trouble between the Railway Company and the British syndicate still remained unsettled and that Japan's participation in its loan would complicate matters, the Japanese Government accepted the British proposition of suspending the payment of the second and subsequent instalments of the loan.

In 1913, the people of Kiangsu, realizing that they could not secure any return on their investments unless a change was made, consented to hand over their property, upon a fair valuation of the Chiaotung Pu,¹ to be managed as a State concern, thus hoping to regain some of their money. The acquirement of the Kiangsu section of the railroad by the Government made the sale of the Chekiang section of the line inevitable. On March 1, 1914, the proprietors of the Chekiang Railway held a meeting at Hangchow and agreed by a large majority to sell their shares to the Government.

¹ New name for the Ministry of Communications, changed from the old name, Yu Chuan Pu, after the inauguration of the Republic.

The Hukwang Railways. By the end of 1912 at a conference held by General Li Yuan-hung, Civil Governor Liu of Hupeh and the managers of these lines, it was decided that the Szechuan-Hankow and the Canton-Hankow (the Hupeh and Hunan section) should be nationalized. It was arranged that all the materials for the construction of the railways purchased by the private capitalists should be redeemed by the Government. The funds now reserved by the "People's Railway Company" of Hunan and Hupeh may be invested in other commercial enterprises or in constructing the tributary lines in connection with the trunk railways. In Chengtu public meetings were held by the shareholders of the Szechuan-Hankow road. The shareholders decided to utilize their funds for the construction of lines in connection with the main lines.

After some negotiations between the representatives of the provinces concerned and the Ministry of Communications the policy of government ownership of the two lines was agreed upon. Terms acceptable to both parties concerned were arranged. In the spring of 1913, agreements of transfer¹ were made between the railway companies and the Ministry of Communications regarding the taking-over of the two roads by the Ministry.

The Lotung and the Tungpu Railways. The same fate fell upon these two roads. The private companies organized to construct them have been in existence for several years, but very slow progress has been made in the construction work. The Tungpu line runs from Tatungfu in Northern Shansi to Puchowfu in the extreme south of the province. The Ministry of Communications has contemplated the transfer of this line to State management, and its incorporation into a big trunk system.

¹ For full text of the transfer agreement for Szechuan-Hankow R. R., see *Far Eastern Review*, March, 1913.

The Lotung line forms a section of the Lung-Tsing-U-Hai line, the Northern latitudinal trunk line.¹ In the contract made on September 24, 1912, with *La Compagnie Générale de Chemins de Fer et de Tramway en Chine*, Article IV, section 2 provides that "the Chinese Government obligates itself to purchase, equip and put into operation the Lotung section, granted to the provincial company of Honan, so that the company may at an opportune time take all necessary steps in order to prosecute without delay and hindrances the work outlined in the contract to the West." At the end of the year 1913, the Lotung railway was transferred from private ownership to Government control and the Government is earnestly considering the completion of this line.

The Fukien Railway. In 1914, less than twenty miles of the Fukien railway was open to traffic, and the financial condition of the company was hopeless. As the people of the province objected to the levying of additional taxes for the construction of the line, the company requested the Government to nationalize the line. The Ministry of Communications thereupon sent deputies to Fukien to take over the property.

China's Trunk Lines. At the end of the year 1912, the Ministry of Communications proposed four trunk lines, two running north and south and two running east and west, through the whole country. The proposal was submitted to the Cabinet and met with approval. The lines are as follows:

I. The Central longitudinal line, beginning from Mongolia, running through Peking and Shansi, turning southward to Hankow and thence to Chin Lung. Peking is to be the center of this line.

¹ Cf. *infra*, pp. 154-157.

II. The Eastern longitudinal line, beginning from Manchuria, passing through Chihli, Shantung, Kiangsu, and Chekiang and ultimately reaching Fukien and Kwangtung.

III. The Northern latitudinal line, beginning from Haichow, passing through Honan and Tungkwan and Kansu and thence to Ili (there meeting the Central Asiatic Railway?).

IV. The Central latitudinal line, beginning at the Nanking terminus of the Nanking-Shanghai Railway, passing through Wuchang, and entering Szechuan.

When the above trunk-line system is compared with that outlined in Mr. Tsen Chen-hsuan's memorial presented to the Manchu Throne several years before there is a marked difference between the two. Mr. Tsen suggested a system with a particular center from which all trunk lines should radiate to different parts of the country—a star system—while the newly approved system is a rectangular system. Mr. Tsen's view was to make Peking the center of all trunk lines, which were to be four in number, *viz.*:

I. The Northern trunk line, running from Peking through Kalgan, Kulun (Urga) and then to Kiachta in Mongolia.

II. The Eastern trunk line, made by extending the present Peking-Mukden line to Aigun via Chiaonan and Tsitsihar in Manchuria.

III. The Southern trunk line, beginning from Peking and ending at Canton via Hankow, *i. e.*, the Peking-Canton line when completed.

IV. The Western trunk line, formed by extending the line between Chengting (on the Peking-Hankow line) and Tayuan which will join with the Tungpu Railway, to the West via Tungkwan and Lanchow, and ultimately entering Ili.

CHAPTER IX

INTERNATIONAL COÖPERATION

IN the last period we have shown that, with the exception of the Chinese Eastern Railway, the Shantung Railway and the French Yunnan Railway, which are of entirely political origin, nearly all railways in China were built by foreign loan contracts the terms of which are very disadvantageous to China. Railway loan agreements concluded in the last period show that China has entrusted even the control and the expenditure of loan funds to foreign syndicates, notwithstanding that ample security and high interest were provided for the loans. This was due in the first place to the inexperience of the governmental authorities in railway matters in the very beginning; hence a bad precedent was established in case of the Peking-Newchwang Railway loan agreement. And in the second place this was due to the fact that spheres of interest were marked out and the foreign syndicates devoted their attention mostly to their respective spheres, hence at that time there was relatively less competition and rivalry for railway financing and construction in one another's spheres than in this period.

When the people of China became a little more familiar with the railway business, when China's credit was improved more or less and when the foreigners became more interested in Chinese affairs, trade and railway construction, the situation underwent a change. On the one hand, China could secure comparatively more liberal terms in contract-

ing new loans, although not to the full extent accorded many other nations who raise foreign loans for railway construction. On the other hand, there was created a new financial arrangement—an arrangement between different nations to have several rival interests combined to finance and construct a certain line or several lines. This kind of combination is not only new in the history of old China but also perhaps in the history of railway financing in any other part of the world. It will be best to study a little more in detail the important cases of loan negotiations and contracts in this period so as to illuminate the above features.

*The Canton-Kowloon Railway*¹

In 1898 the British and Chinese Corporation had secured the concession to build this line. The concessionaires had accomplished nothing until 1905 when the American China Development Company agreed to give up its concession for the construction of the Canton-Hankow line and to receive in compensation a sum of \$6,750,000, U. S. C., a part of which was advanced by China through a British loan. This line is very important for maintaining Hongkong's position as distributing center for South China, because if a deep water harbor were established somewhere near Canton and in connection with the Canton-Hankow line, the traffic through Hongkong would be lessened by severe competition in the future. After the purchase of the American interests this possibility of competition may be eliminated.

Before the end of 1905, the Hongkong Government had proceeded to make arrangements to construct the British section of the line, a distance of 22 miles, through Kowloon (British leased territory). Meanwhile negotiations were

¹ *Far Eastern Review*, Nov., 1909, pp. 335-345; Kent, *Ry. Ent. in China*, pp. 173-176.

carried on with the Peking Government to construct the Chinese section of the line, a distance of about 89 miles.

The final agreement¹ between the Chinese Government and the British and Chinese Corporation was then signed on March 7, 1907, for a 5 per cent gold loan of £ 1,500,000, issued at 94. The general rules for the supply of materials are similar to those stipulated for the Shanghai-Nanking Railway, with the exception that a lump sum of £ 35,000, instead of 5 per cent commission on all purchases, was paid for all services rendered in the construction and equipment of the line. The loan is guaranteed by the Chinese Government and secured on the railway when completed. The financial terms also are similar to those of the Shanghai-Nanking road. The life of the loan is thirty years, repayable at 102½ after twelve and one-half years, or at par after twenty-five years.

From the experience on the Shanghai-Nanking road where, owing to the control of expenditures resting entirely in the hands of the British chief engineer, the usual extravagance and unnecessary expenditures in management and construction had been the results, the Government authorities in negotiating this loan insisted upon some modifications of the Shanghai-Nanking terms and succeeded in securing for the Chinese Director-General participation in the supervision of the funds and in putting the Chinese Managing Director in the place of the Board of Control, *i. e.*, the administration of the railway is thus invested in the Managing Director who is appointed by the Viceroy at Canton. With the Managing Director are associated a British chief engineer and a British chief accountant. These British employees are nominated and certified as competent for their posts by the Corporation and are then approved

¹ Kent, appendix F, no. 4.

by the Viceroy. If their services should prove unsatisfactory to the Viceroy, he would request the Corporation to dispense with their services and to nominate their successors, and, in the event he wished to remove them for good cause, it should be done in consultation with the Viceroy.

All receipts and payments, authorized by the Managing Director, must be certified by the chief accountant, *i. e.*, while the Chinese official has the privilege of handling the expenditures the accounts are supervised and checked by the British. It was arranged in this way because the Englishmen usually did not trust the Chinese to spend a foreign loan honestly. But later events show that the Englishmen themselves are experts of the "squeeze" and are not all trustworthy.

After the construction work on the line had been started only a little more than a year, charges of graft and corruption were directed against the chief accountant's department. When put on trial the chief accountant was convicted on the charge of embezzling an enormous sum of money.

Notwithstanding, this loan agreement has, in practice, been found more satisfactory than all the preceding ones contracted with the British and there has been complete harmony based on mutual confidence between the two parties.

*The Tientsin-Pukow Railway*¹

In 1898 Germany and Great Britain had secured jointly a concession for constructing this line. In May, 1899, the preliminary negotiations for financing, constructing, equip-

¹ Kent, pp. 148-153, and appendix E for preliminary agreement. *Far Eastern Review*, pp. 309-310, and 329-334 of Nov., 1909, copy. For final agreement (English translation), see supplement of same issue.

ping and operating the line were completed. In 1900, the Boxer Uprising suspended further progress. In June, 1902, negotiations were again resumed and on January 13, 1908, the final loan agreement was concluded. At the time of negotiating the final loan contract China's credit was improved more or less. The Government authorities, who determined to reassert a little of China's dignity, insisted on more effective "control" of the line. As there was rivalry and competition between the German and British syndicates for the loan, China succeeded in making some important modifications of the old loan terms and in establishing a more favorable precedent for future loans.

This loan is known as the Imperial Chinese Government 5 per cent Tientsin-Pukow Railway Loan. The amount of the loan was fixed at £ 5,000,000 to be issued in two instalments. The life of the loan is thirty years, amortization to commence after ten years in half-yearly installments at a premium of $2\frac{1}{2}$ points (£102½ on every £100 bond), and at par after twenty years. The first issue was placed on the market in March, 1908, at $98\frac{3}{4}$, for £3,000,000, of which £1,890,000 was raised through the Deutsch-Asiatische Bank in Germany for the German section of 401 miles and £1,110,000 was raised through the Chinese Central Railways, Ltd., in London for the construction of the British section of 235 miles. Instead of paying the usual 20 per cent of the profits of the railway, China paid a lump sum of £200,000 to the Anglo-German Syndicate out of the first issue of the bonds.

The loan was oversubscribed in Europe for several times its value. A considerable portion was also subscribed for by Chinese in Peking and Tientsin. An amount of £260,000 in bonds exclusive of those purchased by private native investors is also held by the provincial governments of Chihli, Shantung, Kiangsu and Anhui. The price to the

Government for the first floating was 93, and the second was the actual rate of issue to the public, less $5\frac{1}{2}$ points commission to the financial syndicates.

The loan service is met from the earnings of the road. The loan is secured on the Likins and internal provincial revenues of Chihli, to the amount of 1,200,000 Haikwan Taels per year, of Shantung, 1,600,000 Hn. Tls. per year, the Nanking Likin of 900,000 Tls. per year, and the Huaian Native Customs in Kiangsu of 100,000 Tls. per year. At the same time the loan is guaranteed by the Central Government. The railway itself is not mortgaged as collateral security as in the case of previous lines. It was for the first time stipulated in a foreign loan agreement that, in case of default on the loan service, the hypothetical revenues were to be administered by the Maritime Customs Service.

The signing of this agreement marked the square deal for the first time in the history of railway loans in China, and the first recognition by the foreign banks of China's right to participate in the control of loan funds and construction. The old principle of joint management was abandoned. The construction and control of the road rest entirely in the Government. ✓

China has the power to appoint experienced British and German chief engineers, acceptable to the Anglo-German syndicate. These engineers are subordinate to the control of the Chinese Managing Directors of the two sections respectively. In the employment and dismissal of the technical employees of the line, the Managing Director and the chief engineer have to concur and submit their differences of opinion to the Director-General for decision. China also secured the privilege of appointing a European chief engineer to administer the entire line after construction, without reference to the syndicate.

The Director-General retained in his hands complete

control of the funds derived from the loan, subject, however, to the condition that the loan funds should be drawn upon a requisition signed by the managing directors who were to certify for what the money was required. There was no provision for the services of a foreign accountant to certify payments, as in the case of the other loans. A modern system of accounting was, however, provided for, subject to inspection at intervals by a representative of the syndicate in order to verify the payments. The purchase of materials was also arranged for on a most favorable basis for China.

The terms of this agreement were the most favorable ever conceded to China. It was only due to the rivalry and competition of the British and German interests that these well known "Tientsin-Pukow" terms have come about. The Germans have taken all the credit of conceding these liberal terms to China and were loud in their praise of the generous terms, while the British financiers, who were usually more or less selfish in dealing with China and forgot entirely the notorious case of the Canton-Kowloon road, held the opinion that Chinese official honesty was not trustworthy and that the terms were too liberal and were not sufficient to guarantee the bondholders.

When the agreement went into effect matters in the two sections of the road developed exactly contrary to what the respective foreign syndicates had thought. In the German section some discrepancies occurred in the accounts to the amount of Tls. 3,000,000 and other graft was discovered in the accounting department. This occurrence of frauds was a hard blow to the Tientsin-Pukow terms. The burden of this disgrace, however, can not be accepted in its full weight by the Chinese officials, because, owing to the carelessness, negligence and lack of knowledge of the railroad business on the part of the Managing Director, the

Germans have an equal opportunity of conducting the business transactions, and contrary to the provisions of the loan agreement the German chief engineer enjoyed equal control over the accounting department. The auditor, or rather the representative of the Anglo-German syndicate, should also be blamed for failing to discover these enormous peculations in the accounts.

The Managing Director and his confederates were, however, removed and severely punished by the Government while the alleged German accomplices whom Chinese law could not reach were free from prosecution, owing to the protests of their innocence by the German interests. The innocent Director-General, against whom no breath of suspicion had been stirred, was dragged down by the fall of the Managing Director, because the Government held him responsible for the misdeeds of his subordinates.

Aside from this dissension and fraud the operation of the "Tientsin-Pukow" terms was as a whole satisfactory. This was shown in the British section where the Managing Director was an able man and knew the railway business almost as thoroughly as the British chief engineer. He was able to secure low prices for materials which had formerly been purchased for other lines by foreign purchasing agents at much higher prices. He gave equal opportunities to all manufacturers, native and foreign, and awarded many contracts at lower prices to American and Continental firms rather than the British manufacturers whose interests the British engineer invariably advocated. Such an action on the part of the Managing Director naturally offended the Englishmen who wanted to monopolize the supply of materials since the loan was raised in England: hence, friction often occurred during the construction of the road. Notwithstanding this, matters progressed very favorably.

The German or northern section of the line was opened

to traffic in February, 1912; the British or southern section was opened in June, 1912. This road traverses an exceedingly rich district, and is already making itself felt in the transportation of cargo as a formidable competitor of the old Grand Canal route. The passenger traffic of the Peking-Hankow line from Peking and Tientsin to the lower Yangtze Valley is also more or less diverted to this road. At the present these are the only two lines in China which may be said to have to face the problem of competition as found in other countries. The effect of the Tientsin-Pukow road on the development of the trade of Shanghai, as the great commercial center for Central and North China, and of Pukow and Hankow, as interior distributing centers of the Republic, is a matter of considerable interest which will be more seriously watched in the future.

*The Hukuang Railways*¹

(Canton-Hankow and Hankow-Szechuan Railways)

In the last chapter we studied the fight for the control of these lines between the provinces concerned and the Central Government. Here we will take up the loan negotiations between China and the interested banking groups of the different Powers, and the quarrel among the Powers themselves regarding these important lines. We shall also see how a compromise and a co-operation of international finance—a great financial combination in China—were effected.

On October 1, 1903, Great Britain succeeded in securing the right of construction for her own and American capitalists. An agreement signed by Prince Ching with the

¹ *Far Eastern Review*, Apr., 1910, pp. 523-8; June, 1911, *passim*; Aug., 1911, pp. 82-88; Jan., 1914, pp. 290-307. Bland, *Recent Events and Present Policies in China* (Philadelphia, 1912), pp. 322-5; *China Year Book*, 1914, pp. 233-5.

British Minister Sir Ernest Satow stipulated that "if China desires to construct a Hankow-Szechuan line and her capital is insufficient, she will obtain all necessary foreign capital from Great Britain or the United States." And when the Hongkong Government made a loan to China for the redemption of the Canton-Hankow concession from America, Great Britain also secured a preferential right to supply both money and material for the construction of the Canton-Hankow line.

In the early part of the year 1909, China decided to raise a loan for the construction of the above two lines. In accordance with her agreement with Great Britain, China extended the first chance to the British and Chinese Corporation to supply the loan—the corporation being an amalgamation of British and French interests since 1905.¹ Meanwhile German interests expressed a desire to participate in the loan. On March 1, 1909, a tripartite agreement was arranged in Paris after a stormy conference. On April 2, an American banking group (the China Investment and Construction Company) also formally proposed American participation in the loan by addressing the British and Chinese Corporation.

During the negotiations, Mr. J. O. P. Bland, the representative of the British syndicate, determined to have the "Canton-Kowloon" terms applied to the agreement, while Grand Councillor Chang Chih-tung insisted that "Tientsin-Pukow" terms should be stipulated. To this Mr. Bland refused to accede, and negotiations were abruptly broken off by the Grand Councillor because of the British arrogance. Some German bankers then stepped in and offered to

¹ Agreement between certain British corporations, a group of French capitalists and Chinese Central Rys., Ltd., for the construction of the Sinyang-Pukow and Hankow-Chengtū Rys., signed on Oct. 2, 1905; see *Far Eastern Review*, Jan., 1914, pp. 305-307.

accept the "Tientsin-Pukow" terms and at the same time secured some special privileges over the Canton-Hankow Railway. Immediately a preliminary agreement was made to float a loan for the construction of the Canton-Hankow line. Thus German influence was let into the Yangtsze Valley which Great Britain has struggled hard to maintain as her special sphere of interest for many years. The British Legation in Peking at once lodged a strong protest with the Grand Councillor, accusing him of breach of promise. To this the Grand Councillor replied that since the British syndicate refused to accept the terms similar to those of the Germans their preferential rights had been canceled. The British Government, not satisfied with this explanation, maintained that the pledge was made to the British Government and not to the British syndicate, and that the British Minister should be notified so that other British capitalists might take up the loan. In consequence of this the future activity of the British and Chinese Corporation in China was destroyed, because, during the subsequent loan negotiations in Peking, China refused to deal with the representative of that corporation. Mr. Bland, who acted for a good many long years in the Chinese drama, "lost his face" and was compelled to retire from the "flowery" stage. The Hongkong and Shanghai Banking Corporation took over the British interests in China.

At the same time the people of the nations concerned also accused one another. Diplomatic protests and recriminations then followed. The bankers, however, found a means of solving the complicated problem. They held a conference in Berlin. As a result of the conference a compromise was brought about to the effect that the Hongkong and Shanghai Banking Corporation and its French associates agreed to combine with the German Group to negotiate a loan to cover not only the Hankow-Canton road

but also the Hankow-Szechuan line. An inter-group agreement was concluded under which the German Group, after having agreed to withdraw its claim over the Canton-Hankow line which was to be constructed by an Anglo-French Group with a British chief engineer, secured the right to construct a railroad from Hankow to the border of the Province of Szechuan with a German chief engineer. Having reached this compromise the tripartite groups concluded with the Grand Councillor on June 6, 1909, a preliminary agreement for a loan of £5,500,000, accepting the terms embodied in the Tientsin-Pukow Agreement.

On June 10, 1909, when this became known, the American Legation in Peking forwarded a protest to the Grand Councillor against the ratification of the preliminary agreement on the ground that an American syndicate had secured an original promise from the Chinese Government that "in the event of the floating of foreign loans for the Hupeh section of the Szechuan road China will first consult America and Great Britain." Protest was also made against the items in the proposed loan agreement giving preference to German, British and French materials.

At the same time the American Ambassador in London also called the attention of the British Foreign Office to the fact that Americans had the right and the desire to participate in the loan and that in Article III of the agreement,¹ signed on October 2, 1905, between the British and French groups provision was made for American participation. According to the same agreement a period of twelve months from the date of signature was named as the time within which American capitalists might notify the British and French Groups of their desire to share in their activities. Meanwhile, a number of American capitalists, mostly Wall Street bankers headed by J. P. Morgan & Company, formed

¹ *Far Eastern Review*, *op. cit.*

a powerful group with the object of backing up the United States Government's attitude¹ toward the loan and entered the field for participation in the investment in China.

The Peking authorities found it hard to disregard the American claim and felt, also, that it was an advantage to China to admit the American interests. But as the preliminary agreement had already been signed it was very difficult to change any of the conditions without arousing storms of protest from the Governments of the tripartite groups. In fact, the United States had not definitely informed China of her desire nor showed any determined eagerness to co-operate in this loan during its negotiation, until the European syndicates had already settled the trouble amongst themselves and had cleared up their differences with China.² The American *Chargé d'Affaires*, Mr.

¹ The United States' attitude towards the loan was explained in an official statement given out from Washington, D. C., in Oct., 1909. A part of the text of the statement says: "The Government of the United States is much gratified at the formation of a powerful and responsible American financial group to enter the important field of investment in China, and is giving to the enterprise that cordial support which the Department of State stands ready to give all legitimate and beneficial American commercial and financial undertakings in foreign countries. Such undertakings are to be encouraged because of direct benefit to American commerce and to international relations. . . ." See *Far Eastern Review*, Nov., 1909, p. 317. This attitude was regarded as the outcome of the so-called "Dollar Diplomacy" launched by Mr. Taft, then President of the United States, and Mr. Knox, then Secretary of State.

² In the same official statement issued in Oct., 1909, from Washington, the United States Government confessed that: "Although American capitalists did not, owing to the financial conditions in this country, find it convenient to accept the British invitation to coöperate with the British and French groups in endeavoring to persuade China to make the foreign loan for the construction of the Hankow-Szechuan line, it is fortunate that before the negotiations were terminated the organization of this powerful American syndicate has made it possible for China to fulfil her agreement and grant to the U. S. participation in this loan in accordance with the Waiwupu's promise of 1904." *Ibid.*

Fletcher, was, however, very energetic in making representation after representation to the Waiwupu of China's obligations and of his Government's determined attitude toward this loan.

On the other hand, the European diplomats demanded an early ratification of the loan by bringing pressure upon the Grand Councillor to memorialize the Throne. Among them the British Minister was especially emphatic in his demands. Mr. Fletcher warned the British Minister that his action would disturb the cordial relations between the United States and Great Britain. The newspapers of Europe and America then made a great outcry, each siding with their own representative. The Europeans accused the United States of having allowed the European countries to do all the hard work, then at the last moment of having claimed a share in the reward of their efforts and of having delayed the negotiations by insisting on participation; while the United States maintained that she was first in the field for this particular loan and had on three separate occasions between January and April of the year 1909 pointed out to British banking interests that the American banking group had a desire to co-operate in this loan, and that on each occasion the proffered co-operation had been declined by them, although German and French co-operation was accepted shortly thereafter.

China, however, realized the seriousness of the situation. She assured the American Legation of her postponement of the final ratification of the agreement. The Germans became at once very energetic in using every means to bring about the ratification of the contract. The Washington Administration under Mr. Taft then took drastic action by sending a presidential message to the Prince Regent of China emphasizing American rights, employing however only friendly terms. The Waiwupu was then instructed

to open negotiation with Mr. Fletcher for the admission of American capital on equal terms with the Europeans. On August 17, 1909, admission of American capital was definitely accepted and the loan was increased from £5,500,000 to £6,000,000, the four groups to take a quarter each. This increase meant that China was forced to borrow £500,000 more in order to admit the United States.

When it seemed that everything was settled additional troubles arose. Russia and Japan, who have no surplus capital for investment in foreign lands, also insisted upon a share in the loan and urged a further increase of the loan to accommodate them. This caused another diplomatic war lasting, however, only a short time.

Furthermore, negotiations among the four groups who had already secured the concession struck another obstacle and from that there resulted a further delay in concluding the final agreement. The competing countries experienced great difficulty in arranging the question as to the amount of line each would control and the appointment of engineers who could influence, in favor of their respective countries, the purchase of all the railroad supplies needed, thereby originating the channel of future commerce. The Germans were accused of not being willing to yield sufficiently to the other Europeans to equalize the common loss involved by the American participation. On the other hand, the British were accused by the Germans and French of delaying the loan for petty gains.

Somehow, however, these two points of dispute, *i. e.*, the allotment of the line mileage and the appointment of engineers, were settled. A third question came up—the question of appointing purchasing agents. The American Group, knowing the national prejudices of the European engineers in awarding tenders and the past record of the British and Chinese Corporation and the Deutsch-Asiatische

Bank in placing orders for materials regardless of the provision of the loan agreements, endeavored to secure American participation in the appointment of a purchasing agent who would guarantee a square deal to American manufacturers. Owing to the refusal of the British and German Groups to permit any change in the wording of Clause 18 of the original agreement, which named the British and Chinese Corporation and the Deutsch-Asiatische Bank as purchasing agents for all the lines, the negotiations between the four financial groups dragged along for several months more. Finally the representative of the American Group was induced to yield. He waived the right to appoint an American purchasing agent on the condition that the British and the German purchasing agents should write an official letter obligating themselves to an impartial awarding of tenders. Thus the exclusive purchasing rights for the entire system including the American section were conceded to the Deutsch-Asiatische Bank and the British and Chinese Corporation. At a meeting held in Paris on May 23, 1910, between the representatives of the four groups, an inter-group agreement was signed providing for "the receipt of or an absolute basis of equality of tenders from British, German, French and American manufacturers."¹ At the same meeting it was also agreed that the four groups should participate equally in the purchasing commission, the Deutsch-Asiatische Bank and the British and Chinese Corporation receiving one per cent as compensation for the actual services rendered, and the other 4 per cent to be equally divided between the four groups. Thus the contention between the several leading financial groups as well as their respective governments was brought to an end.

¹ For full text of the agreement, see *Far Eastern Review*, vol. viii, no. 3, p. 83.

During the period of this contention, the seriousness of the international turmoils, coupled with the ridiculous pretensions of Russia and Japan, had roused the fears of China's loyal children who suspected that there was cruel design behind the loan. The result was a popular opposition to placing the "sovereign rights" of the nation in the hands of foreigners.

After all these many difficulties had been overcome the final agreement ¹ was signed on May 20, 1911, between Mr. Sheng Hsuan-huai, the Minister of Posts and Communications and the representatives of the Four Nations' Groups. The world-famous loan is called "The Imperial Chinese Government Five Per Cent Hukuang Railway Sinking Fund Gold Loan of 1911." According to the agreement a loan of £6,000,000 was floated to:

1. Redeem certain hitherto unredeemed gold bonds to the total par value of gold \$2,222,000, issued by the American China Development Company on behalf of the Imperial Chinese Government.

2. (a) Construct a Government railway main line from Wuchang, the capital of the Hupeh province, through Yochow and Changsha, the capital of Hunan province, to a point in the district of Yichang-hsien, in the prefecture of Chenchow, of the southern boundary of Hunan, connecting with the Kwangtung section of the Canton-Hankow railway line, the total length of this line, to be known as the "Hupeh-Hunan section of the Canton-Hankow railway line," being an estimated distance of 1,800 Chinese *li*, or 900 kilometres; (b) and a Government railway main line from a point at or near Kuangshui in the Province of Hupeh, connecting with the Peking-Hankow railway line and passing through

¹ For full text of the agreement, see Supplement to the *Far Eastern Review*, Aug., 1911.

Hsiang-yang, and Chingmenchow to Ichang, an estimated distance of 600 Chinese *li*, or 300 kilometres,—this latter section of the main line having been added in substitution for the branch line from Chingmenchow to Hanyang originally agreed upon,—the total length of this main line, hereafter known as the “Hupeh section of the Szechuan-Hankow railway line” being about 1,800 Chinese *li*, or 900 kilometres.

The agreement provides that after the deduction of the amount required for the redemption of the gold bonds the balance of the loan shall be solely devoted both to the construction of the aforesaid railway lines, including the purchase of land, rolling stock and other equipment, and also to the working of the lines, as well as to the payment of interest on the loan during the period of construction, which is estimated at three years from the actual beginning of the work, a longer period, however, being allowed for the completion of the section from Ichang to Kweichowfu in consideration of the engineering difficulties to be encountered.

In the agreement it was also stipulated that the security for the loan shall be the general Likin of Hupeh province, amounting to Tls. 2,000,000 per year; the Hupeh additional salt tax for river defence, amounting to Tls. 400,000 per year; the Hupeh new additional 2 *cash* salt tax of September, 1908, amounting to Tls. 250,000 per year; the Hupeh collection of Hukuang inter-provincial tax on imported rice, to the amount of Tls. 250,000 per year; the general Likin of Hunan, amounting to Tls. 2,000,000 per year; the Hunan Salt Commissioner's Treasury regular salt Likin, to the amount of Tls. 250,000 per year; in all amounting to Tls. 5,200,000 per year. In case of default in the payment of principal or interest of the loan, Likin and other suitable internal revenues of the Provinces of Hupeh and Hunan

sufficient to provide the above-stated amount shall be transferred to, and administered by, the Imperial Maritime Customs in the interest of the bondholders.

The duration of the loan is forty years. Yearly amortization in half-yearly instalments shall commence after ten years out of the revenues of the line, or such other revenues as the Chinese Government may think fit to use for the purpose. The whole outstanding amount of the loan may also be redeemed after ten years from the date of the loan by paying a $2\frac{1}{2}$ per cent premium on the face value of the bonds, and after the lapse of seventeen years without premium.

The price of the bonds to China was 95 per cent of their nominal value with 5 per cent interest.

The construction and control of the railway lines are entirely and exclusively vested in the Chinese Government, in addition to the power of appointing a British chief engineer for the Hupeh-Hunan section of the Canton-Hankow railway line from Wuchang to Yichanghsien; a German chief engineer for the Kuangshui-Ichang section of the Szechuan-Hankow line; and an American chief engineer for the section of that line from Ichang to Kweichowfu. All these engineers must be fully qualified and acceptable to the banks concerned.

The supervision of expenditures and the control of the loan funds were stipulated in a manner similar to the Tientsin-Pukow terms.

After the signing of the agreement, as we have seen, a revolution broke out, which, with its aftermath, produced a great change in the economic condition of the country and the value of the securities already pledged. The machinery of tax collection was dislocated. Likin collections fell off and other revenues pledged also suffered. The credit of the native banks was seriously affected. Progress

on the construction work was completely blocked. These and other factors persuaded the foreign bankers to raise the question of reconsidering some of the points in the agreement. The bankers deemed it advisable to have the security revised, the arrangements for the banking of funds reconsidered, and a change instituted with regard to the auditors. Negotiations were re-opened with the Minister of Communications. The following points were raised and agreed upon: ¹

1. *Additional security.* The property and materials of the lines shall be specially given as provisional guarantee that the Likin will be unimpaired.

2. *Change in the methods of transfer of loan funds.* In Article 14 of the agreement it was stipulated that the transferred funds to the extent of one-half of the net balance of the loan proceeds might, at the discretion of the Ministry of Posts and Communications, be deposited with the Bank of Communications (Chiao-tung Bank) or with the Taching Government Bank, the Chinese Government declaring itself responsible for all the funds of the loan deposited with these banks. After the outbreak of the Revolution the above-mentioned banks and the Treasury were affected and both of the banks failed to do their usual business with the foreign banks. After much tedious negotiation it was decided that the loan funds should be deposited temporarily with the Deutsch-Asiatische Bank, the Hongkong and Shanghai Banking Corporation, the Banque de l'Indo-Chine, and the International Bank in readiness to be drawn from time to time as required for the work until such time as either the Chiao-tung Bank or the Taching Bank has been reorganized as a State Bank of China and has established its credit, and business relations with foreign banks have

¹ *Far Eastern Review*, Mar., 1913, pp. 454-456.

been mutually resumed. When such time comes the Government may consult with the banking groups as to a revision of the methods of transfer laid down in Article 14 of the agreement by which the deposits of the proceeds of the loan funds were to be shared with the Chiao-tung Bank or the State Bank of China as agents.

3. *Change in the keeping of accounts.* Article 14 of the agreement also set out that the accounts were to be kept in Chinese and English in accordance with accepted modern methods, and were to be supported by all necessary vouchers. Such accounts and vouchers were to be open for inspection, at any time during the period of construction, by the auditors engaged by the banks. This was deemed by the banks to be an insufficient safeguard in view of the altered conditions in the country, and they pressed in addition for the appointment of qualified accountants. The banks also deemed it advisable to have adequate provision made for the supervision of materials. It was ultimately decided that China should herself forthwith engage experienced foreign accountants whose dismissal and appointment would be entirely and exclusively controlled by the Chinese Government. It was also agreed that the Managing Director and the engineers-in-chief of the respective sections of the Hukuang system should select a foreign engineer to be stationed at the store yards to control, supervise and record the materials. In the event of damage, loss or misuse the Managing Director and the chief engineer shall be held responsible.

Another difficulty encountered by the Central Government was its failure to secure a permanent Director-General for the lines.¹ This was, however, soon overcome. When

¹ General Huang Hsing and Mr. Tsen Chen-hsuan were appointed successively to the Post of Director-General of the system. Both of

the Central Government was again strongly established in Peking and the country became pacified, construction work was pushed on in both the southern and the western lines.

Special conferences were then held between the chief engineers and accountants of the lines and the banks, and regulations were drawn up and agreed to by the Ministry of Communications for the proper transference and disbursement of the loan fund and provisions taken against waste and misappropriation.

By 1913-1914, an arrangement was made by the Chinese Government with the four banking groups for the extension of the Hupeh-Szechuan railway from Kweichowfu, via Chungking, to Chengtu, the capital of Szechuan province, involving the construction of over 500 miles of lines. It is understood that the financial arrangements will be equally shared by the four groups. Details had not yet been settled when the European War broke out. It is doubtless the French who will be more benefited by this extension than the other three nationalities, because it will be most probably the French Banking Group who will be given the right to appoint a chief engineer for this section of the Hankow-Szechuan road as they were not given that privilege in the previous agreement. It remains to be seen, however, how the present war will affect the whole system of the Hukuang roads.

Since the conclusion of the Hukuang Railway Loan, China has contracted several other important railway loans, understood to be issued on practically the same conditions as the Tientsin-Pukow railway loan. The most significant of these are the Lung-Tsing-U-Hai Railway, the Sinyang-Pukow Railway and the Shasi-Shingyifu Railway loans.

them were later implicated in the Second Revolution and fled the country.

*The Lung-Tsing-U-Hai Railway*¹

In 1903 a loan contract for the construction of a railway from Kaifengfu to Honanfu (the Pienlo Railway) in the Province of Honan was made between the Chinese Government and the *Compagnie Générale de Chemins de fer et de Tramways en Chine*.² Article 23 stipulated:

If the Compagnie finishes in good condition the work of the railway from Kaifengfu to Honanfu, strictly in accordance with all the clauses of the present contract, in this case and if the Chinese Government decides to extend the railway from Honanfu to Si-ngan-fu, the Director-General of the Imperial Chinese Government Railways obligates himself to agree to a preference and to give an option for the loan required for the enterprise to the Compagnie, conformably to the clauses and conditions of the present contract.

It is well understood that if the Chinese Government is able to provide the necessary capital for the construction of the extension from its own resources or with funds raised by the subscription of its own nationals, the Compagnie may not benefit by this Article.

After the Revolution the Chinese Government decided to extend the Pienlo Railway and to complete the Lotung line, which was to be nationalized, to Lanchowfu, capital of Kansuh province, in the West, and to Haichow or Suchowfu in the Kiangsu province, in the East. The Government recognized that the Compagnie had completed in good condition the construction of the Pienlo railway and found that it was impossible to raise capital from native sources. It decided, therefore, to borrow foreign capital. The Ministry of Communications was then authorized by

¹ *Far Eastern Review*, May, 1913, p. 543 (for sketch of the road); May, 1914, p. 472; Jan., 1914, pp. 293-296.

² Cf. *supra*, p. 79.

the Presidential Order, dated August 31, 1913, to negotiate a loan with the Compagnie Générale. But certain clauses of the 1903 contract offered serious difficulties, notably the clause admitting the Compagnie to a participation in the future profits of the line. After some negotiations a modification was attained. It was agreed that certain compensation should be granted the Compagnie Générale for the abandonment of its rights previously acquired and the Government received to itself in return all the rights and advantages arising from the development of this line in its entirety.

In September, 1912, the loan contract ¹ was signed by the Ministers of Communications and Finance on the one part, and the representative of the Compagnie Générale on the other. The authorized amount of the loan was to be 250,000,000 francs, issued at 94, bearing interest at 5 per cent. The life of the loan is forty years. Repayment of capital and redemption at 102½ commence ten years after the issue of the loan. During the construction the interest will be paid from the funds realized from the proceeds of the loan. The payment of interest and the repayment of the loan are guaranteed by the Chinese Government and by a special guarantee on the railway which constitutes a first lien on the road itself and its attachments.

The Chinese Government will be in sole charge of the operation and direction of the railway. The Director-General and the chief engineer have absolute control over all expenditures and receipts of the railway. The work of constructing the railway will be performed under the supreme direction of the Director-General. The Director-General and the Compagnie shall act together, conscientiously, in choosing an engineer-in-chief who shall be either

¹ *Far Eastern Review*, Jan., 1913, giving full text of the agreement.

Belgian or French, experienced and honest, and whose salary shall be fixed by the Director-General with the acquiescence of the Compagnie. All estimates and specifications and details of the works must be submitted in the first place to the Director-General for his approval. No Chinese or European employees can be engaged without the assent of the Director-General. The chief of general accounts, who must be of either French or Belgian nationality, will fill at the same time (*du bon emploi*) the position of Auditor. He will be named by the Director-General and confirmed by the Compagnie. He will sign jointly with the representative of the Director-General all the checks drawn and all responsible documents. Each time that it becomes necessary to appoint technical employees for the railway, or to define their functions, or even to remove them, the Director-General must consult with the engineer-in-chief and act in accord with him. In case of disagreement the decision of the Minister of Communications will be final. The engineer-in-chief is to organize a European staff for the construction and submit it to the Director-General for his approbation—the staff comprising the chief of services, the chief of section, the chief of the accounting bureau, *etc.*, who are to be engaged by the Compagnie and placed under the order of the engineer-in-chief.

The Compagnie will be charged during all the time of construction with the supplying of everything necessary for the construction and equipment of the line and for the needs of its operation except such Chinese supplies as can be procured at equal price and of equal quality.

Although it is stated in the agreement that the Compagnie Générale is domiciled in Brussels, yet the French Yellow Book for 1900¹ describes it as a Franco-Belgian syndicate, indicating that French interests predominated. The pro-

¹ *Cf. supra*, p. 75, foot-note.

ject also met with hearty support from Russia because the line when completed if extended a little further westwards will connect with Russia's Asian system, and constitute a through trunk line from Central Asia to the heart of China and thence to the seacoast. Furthermore, the Banque Sino-Belge, for which M. de Vos acted as representative as well, has a close connection with the Russian banking group.¹ Therefore, it may be said that Russian interests have also probably played an important part in this deal.

This line traverses the poorest and most desolate districts in China proper. Periodical floods often throw thousands of the people into starvation and disease. This railroad will enable the Government to ameliorate these conditions in the future.

From the political and military point of view the line is of even more importance, because when completed it will enable China to control her north-western provinces more effectively and when extended in the future it will facilitate the colonization of Sinkiang by China.

It will be of great commercial value because it will open a deep-water port somewhere between Tsingtau and Shanghai, in order to command the great trade-routes from the central provinces to the sea, thus decreasing the dominating importance of Shanghai and Tsingtau which are under foreign influence.

The Sinyang-Pukow Railway

The preliminary agreement for the concession of this line was signed in 1899. Not until November 14, 1913, was the final agreement² duly signed by the Ministers of Com-

¹ See Inter-Group Agreement for the Sextuple Reorganization Loan, in *Far Eastern Review*, Mar., 1913, pp. 439-441; or *China Year Book*, 1914, ch. on Finance.

² For full text of agreement, see *Far Eastern Review*, Jan., 1914, pp. 307-310.

munications and Finance on the one part and the representative of the Chinese Central Railways, Ltd., on the other part. The final agreement was signed as a purely British undertaking, providing for the appointment of British engineers and the purchase of materials from Great Britain. But as a large percentage of the shares¹ of the Chinese Central Railways, Ltd., are held in France and Belgium, French and Belgian partners are entitled to a division of the profits. The French and Belgians are, however, not admitted to a participation in the allotment of purchase of materials and appointment of engineers, because by doing this openly the truth would be revealed to the Chinese Government. Without informing China, by the 1905 intergroup agreement² the British have practically transferred to the French and the Belgians a part of their rights which the British Government had wrung from China as a penalty for signing the Peking-Hankow loan with the Belgians.

The terms of this loan agreement practically follow the trend of the Tientsin-Pukow terms. The loan is called "The Chinese Government Five Per Cent Pukow-Sinyang Railway Loan." It provides for an amount of £3,000,000 to construct a railway line from a point on the Tientsin-Pukow railway (southern section) to a point at or near Sinyang on the Peking-Hankow railway, a distance of about 350 miles.

The duration of the loan is forty years. Amortization will commence with the eleventh year from the date of the loan. After twenty years the outstanding amount of the loan may be reduced by paying £102½ for each £100 bond. The loan is secured by a specific and first mortgage upon all lands, materials, rolling stock, buildings, property and pre-

¹ *Cf. supra*, p. 141, foot-note.

² *Ibid.*

mises of every description purchased or to be purchased for the railway, and on the railway itself, as and when constructed, and on the revenues of all description derived therefrom. This provision differs from that of the Tientsin-Pukow agreement in which internal revenues and Likins of the several provinces the road traverses were pledged as security. The control and construction of the railway are vested entirely in the Chinese Government.

By the preliminary agreement dated January 6, 1899, it was stipulated that the terms and conditions of the present agreement should be subject to the terms and conditions contained in the final agreement concerning the Shanghai-Nanking railway. Article 12 of the Shanghai-Nanking agreement provides for participation by the lenders in the net profits of the road after certain charges have been met, to the extent of 20 per cent. Net profit certificates were to be issued to the lenders to the amount of 20 per cent of the nominal capital of the loan. In this agreement the British waived their rights under the old preliminary agreement by retaining, in commutation of this participation in net profits, a lump sum of £120,000 out of the proceeds of the loan. It is also provided in this agreement that "no further payment in respect of commutation of profits will be allowed on any supplementary loans."

*The Shasi-Shingyifu Railway*¹

Aside from the above improvements made in contracting foreign loans for railway construction, China has also made some marked progress in other directions by adopting what many other countries have used in carrying on important public works, *i. e.*, the "percentage contract construction

¹ *Far Eastern Review*, Dec., 1913, pp. 248-9; July, 1914, p. 52; Dec., 1914, pp. 220-224; Jan., 1915, pp. 302-08.

system." The system is that a contract is made by the Government with an experienced contracting party (mostly engineering firm or firms) of high financial standing to finance and construct a railroad, providing that a certain percentage of profit shall be allowed by the Government to the contractor over the actual cost of construction and equipment and that the Government is to supervise the entire work during and after its construction. "It is an equitable system for carrying on large public works where it is impossible to make an accurate estimate at the time of entering into a contract."

This system was introduced for the construction of this road. The Shasi-Shingyifu railway contract is a modification of the one signed by Dr. Sun Yat-sen with Lord French on July 4, 1913, providing for a railway between Canton and Chungking.¹ Mr. Rea, Technical Secretary of the Chinese National Railway Corporation, who was entrusted with all negotiations for loan contracts in Europe by Dr. Sun, took to himself all the credit of introducing this new system into China. Feeling confident that the great construction firms could build the railways more "economically and expeditiously" than could the individual engineers nominated by the official banking groups under the prevailing departmental system in which the bank is the principal to the contract, Mr. Rea decided to invite the large contracting firms of high financial standing to participate in the development of Chinese railways. He succeeded in initiating in London in April, 1913, an agreement with Messrs. Pauling and Company for the construction of a line from Canton to Chungking under a contract in which the contractor's profit was a fixed percentage over and above the actual cost of construction and equipment of the road.

¹ Cf. *supra*, p. 122.

After the dissolution of the Chinese National Railway Corporation, the Government refused to recognize the validity of any agreement entered into by Dr. Sun. However, having become convinced of the soundness of the principle underlying the Canton-Chungking railway contract of railway construction on a percentage basis, the Government negotiated another agreement for the Shasi-Shingyifu line which was considered of more political importance for the present than the Canton-Chungking line. The Shasi-Shingyifu railway extends from a point near the city of Shasi on the Yangtze River, in the Province of Hupeh, through Lichow, Changteh, Shenchow, Yuanchow, Chenyuan, Kweiyang and Aushunfu to Shingyifu, in the south-western corner of the Province of Kweichow, with a branch from Changteh to Changsha, the capital of Hunan province.

On July 25, 1914, the final agreement was signed between the Chiao-tung Pu and Messrs. Pauling and Company, Ltd., for a loan of £10,000,000 at five per cent interest. The life of the loan is forty years. In this agreement there are several points which do not appear in any of the previous agreements, *viz.* :

1. The railway is to be constructed by contract.
2. The Chinese Managing Director is to co-operate with a firm of British consulting engineers in drawing plans and supervising the work.
3. A firm of British accountants is to be engaged to keep the accounts of the loan, which is secured on the railway and the properties connected therewith, and is also guaranteed by the Government.
4. Specifications and costs must be first approved by the Chinese authorities.

By inserting such an arrangement, in addition to the other advantageous terms stipulated in the other new loan

contracts, it is believed that China can control and supervise the road better and that the road can be built much more economically and with greater efficiency than by following the usual stringent terms of the old departmental system of construction.

Independent firms and interests (financiers and manufacturers) had been debarred for many years by the official banking groups from entering the field in China for the purpose of competing in railroad building. The Shasi-Shingyifu agreement may be considered as the first stroke against the monopoly enjoyed for many years by the official banking groups and enforced by them from time to time through the tactics of diplomacy and "dirty politics."

CHAPTER X

THE MANCHURIAN RAILWAY PROBLEMS

AFTER the Russo-Japanese War, by the terms of the Portsmouth Peace Treaty (September 5, 1905), the Japanese Government, with the consent of the Chinese Government, took over the line extending from Port Arthur up to Kuangchengtze, a distance of 508 miles, together with such rights connected with the railway as had been conceded to Russia. On December 22, 1905, Baron Komura, then Japanese Minister at Peking, negotiated a convention—the Manchurian Convention¹—and received confirmation from the Chinese Government regarding the transfer to Japan by Russia of Talienwan and Port Arthur and all rights under the lease of the Liaotung peninsula. According to the Supplementary Articles of the Convention, Japan secured from China also (1) the right to construct a branch line from Mukden to Antung (planned to connect with the Korean trunk line at the terminus of Wiji, opposite to Antung on the Yalu River,) and (2) the right to participate in the construction of a second branch further north, between Kuangchengtze and Kirin.

*The South Manchuria (Nanman) Railway System*²

After this railway system had been taken over by Japan

¹ For full text of treaty (translated into English), see *Journal of the American Asiatic Association*, Feb., 1906, pp. 19-20.

² *Far Eastern Review*, Feb., 1909 (whole issue); *China Year Book*, 1912-1914, Ch. on Communications; *Journal of the American Asiatic Association*, Dec., 1911, pp. 339-45.

from the Russians, under the Japanese Imperial Ordinance ¹ of June 7, 1906, the South Manchuria Railway Company was organized with an authorized capital of 200,000,000 yen of which 100,000,000 yen were paid up by the Japanese Government and 20,000,000 yen were subscribed by the Mikado's subjects, *i.e.*, the actual capital of the company is now 120,000,000 yens. The company was formed with this capital for: (1) taking over, developing and operating the railways already constructed, except the Antung--Mukden light railway and its accessories; (2) improving the Nanman and the Antung-Muken railways with the exception of the property in the Leased Territory which should be specially designated by the Government; and (3) working the coal mines at Fushun and Yentai.

The Japanese Government guarantees the payment of interest at the rate of 6 per cent per annum on the paid-up capital of the company for fifteen years after the registration of its organization. It was provided that the subsidy shall in no case exceed 6 per cent of the paid-up capital and that the subsidy with an interest of 6 per cent shall be made a liability of the company to the Government, repayable from the excess of the company's dividends above 10 per cent per annum on all shares.

In the Japanese Imperial Ordinance, it was provided that the South Manchuria Railway Company should be a Chinese-Japanese organization but for some reason the people of China could not avail themselves of the opportunity to buy shares. On the other hand, certain branch lines and collieries, notably the Yentai and Fushun mines, which were Chinese private properties although a certain amount of Russian capital was invested in them, were listed by Japan as the property of the South Manchuria Railway Co.

¹ *Journal of the American Asiatic Association*, Oct., 1906, pp. 266-8.

As the result of the intimate association of the company's organization with the Japanese Government the company has assumed various functions which render it somewhat like a Colonial Administration. The company is empowered: (1) to engage in mining, marine transport, electric works, sales in consignment of the principal goods carried by rail, warehousing business, and construction and administration of land and houses on the land belonging to the railway; (2) to make the necessary provisions for education, health, and engineering work within the limit of the land belonging to the railway; (3) to collect fees from inhabitants within the limit of the land belonging to the railway from which to defray the expense for the items quoted above.

In fulfilment of an agreement entered into in June, 1907, with the Russian Government, the railway line and properties to the south of Kuangchengtze station, together with the coal mines of Shikpailing and Taochiatun, as well as other appurtenances, were formally transferred to the South Manchuria Railway Company, between July 15 and July 18, 1907.

In order to provide the necessary funds for widening the tracks and making immediate improvements of the railway system, the company has issued in London three separate issues of debentures of a total amount of £8,000,000 at the uniform rate of interest of 5 per cent, both principal and interest being guaranteed by the Japanese Government.

In April, 1907, the railway had already been re-opened to traffic. The Russian five-foot gauge on the southern section of the Eastern Chinese Railway had been reduced to three feet six inches, during the war, in order to enable the Japanese military engineers to operate the line with rolling stock from Japan, where the railways are all constructed either on the $3\frac{1}{2}'$ or $2\frac{1}{2}'$ model. In 1908, the

main line and branches (except the Antung-Mukden branch) were converted from the narrow gauge to the standard guage of 4' 8½", which is the uniform gauge on most of the railways in China.

The railway is protected by a large force of Japanese stationed at different points along the main and the branch lines. This policing administration is under the supervision of the Japanese governor-general of the Leased Territory, who has charge also of elaborate postal and telegraph systems. Also, the Manchurian Consular Courts have civil jurisdiction in the railway settlement.

The South Manchuria railway is an instrument in the hands of the Japanese Government for the promotion of exclusive Japanese interests in South Manchuria. Owing to the discrimination and rebates of rates in favor of Japanese firms foreign goods other than those of Japanese manufacture have suffered a great deal. In connection with her ownership of the road many exclusive privileges were claimed by Japan in her encroachment upon China's sovereign rights, and a complete repudiation was demanded of the "open door" doctrine which Japan had occasion, time and again, to declare to the Powers.

In order to develop the terminal of the road, at Dalny (Dairen), in the Leased Territory, the railway company allowed reduced rates to the shipper who shipped his goods through Dalny. Newchwang, the natural port of Manchuria and the headquarters of foreign firms engaged in the Manchurian trade, is thus subject to a severe competition and its prosperity dwindles. This is a case not unlike the local discrimination so often found in the United States.

*The Antung-Mukden Railway*¹

This road was originally a narrow gauge line, hurriedly constructed to meet the military exigencies of Japanese operations during the struggle with Russia. Under Article VI of the supplementary agreement to the Manchurian Convention (December 22, 1905), Japan acquired the right to improve and operate this line for a period of eighteen years from the date of the agreement, after which the Chinese Government may purchase the line at a price to be based upon an appraisal of all properties by a foreign expert selected by both parties.

It was also stipulated in the same Article that: (1) the conveyance by the railway of the troops and munitions of war of the Chinese Government prior to such sale; (2) the despatching of a Commissioner by China who was to be consulted by the persons undertaking the work on behalf of Japan in regard to the manner in which the improvements of the road were to be effected; and (3) the appointment of another Commissioner to look after the business relating to the railway, shall be dealt with in accordance with the regulations of the Eastern Chinese Railway.

Then there arose a controversy over the interpretation of the agreement. Viceroy Hsi Liang of Feng Tien province took the view that, although the treaty provided for the improvement of the road, it did not provide for its reconstruction, and what China meant was that Japan might repair the line to adapt it for the conveyance of goods without any change of gauge. Japan turned a deaf ear to this argument and proceeded at once to begin the work of reconstruction. China proposed to submit the matter to the Hague for adjudication. Japan refused.

¹ *Far Eastern Review*, Nov., 1909, pp. 295-6; *Journal of the American Asiatic Association*, July, 1909, pp. 183-4.

The conversion of the line into a standard gauge was commenced in August, 1909, and was completed in 1912. The total length of the new line is about 170 miles. By the completion of the bridge over the Yalu River, through communication on a standard gauge from Fusan (in Korea) to Mukden was established. The road is operated under the management of the South Manchuria Railway Company. It is considered a foreign railroad because its status is similar to that of the Eastern Chinese Railway. The road is of great commercial and political importance.

The Hsinmintun-Mukden and Kirin-Changchun Railways

On April 15, 1907, an agreement¹ was made between China and Japan for the repurchase by China of the Hsinmintun-Mukden railway (3½' gauge and 40 miles long) constructed by the Japanese military authorities during the Russo-Japanese War, by paying to Japan a sum of gold yen 1,550,000, a portion of which, representing half the cost of the section east of the Liao River, is to remain on loan. In the same agreement it was provided also for a loan from Japan for the construction of the Kirin-Changchun line projected by China. It was also agreed that, with the exception of the periods in which the loans are to be repayable, the conditions of these loans and the regulations for the management of the railways shall be in all respects similar to those of the loan contract of the railways inside and outside Shanhaikwan. The most important conditions are as follows:

1. The periods in which the loans shall be repaid shall be, for that of the Hsinmintun-Mukden line east of the Liao River, eighteen years, and for that of the Kirin-

¹ *Chung Hwa Fa Kwei Tai Tsueuen*, treaties, vol. xii, leaves 33-37; Kent, *Ry. Ent. in China*, app. A, no. 6.

Changchun (Kuangchengtze) line, twenty-five years. No repayment in full of these loans shall be allowed before the expiration of the periods named.

2. The security for the loan from the South Manchuria Railway Company for that part of the Hsinmintun-Mukden line east of the Liao River shall be the real property of the aforesaid section and its earnings. The security for the mercantile shares to be issued by the Kirin-Changchun Railway Administration, as well as for the loan from the South Manchuria Railway Company, shall be the real property of the railway and its earnings.

3. The loans and the interest thereon are guaranteed by the Chinese Government.

4. During the period of the loans a chief engineer and an accountant for each of the lines shall be Japanese and shall act with the Chinese Director-General.

5. The railways mentioned being Chinese Government lines, this government shall have the right to transport soldiers and subsistence over each line free of charge, whenever military affairs or measures of relief shall require.

6. All earnings of the railways in question must be deposited in Japanese banks.

On November 12, 1908, a supplementary agreement¹ was concluded providing for a loan of 320,000 yen (half the cost of the section) for that section of the Hsinmintun line east of the Liao River, and a loan of 2,150,000 yen (half the cost of the line) for the Kirin-Changchun line, issued at 93 and bearing interest at 5 per cent respectively.

The tracks of the Hsinmintun-Mukden line were then converted to standard gauge. The regular management of the line has now been taken in charge by the Administration of the Chinese North Railways.

¹ Kent, *op. cit.*

Construction on the Kirin-Changchun line was commenced in 1910 and completed in October, 1912. It is about 80 miles in length.

It is planned to extend the Kirin-Changchun line to Hoiryong, the principal town of Chientao, a distance of 200 miles. When completed the line will be of great commercial and strategical value. It will contribute to the development of commerce between China, Korea and Japan. The conditions under which the line is to be built may be similar to those of the Kirin-Changchun line.

*The Attempt to Neutralize the Manchurian Railways*¹

Thus we see that Manchuria is divided into three railway spheres, one served by the Chinese Government Railways of North China, another, which expands as it extends northward into Kirin province, by the Japanese South Manchuria railway system, and a third by Russia's Chinese Eastern Railway. Russia and Japan have special interests in North and South Manchuria respectively. When China attempted to induce foreign capital other than Japanese and Russian to build new railways there, or when any other nationality wished, itself, to invest money in Manchuria for railway construction, strong protests were usually met with from either Russia or Japan or both.

American capitalists have taken great interest in Manchurian railway affairs because American commerce had once occupied a very prominent position in Manchuria. Immediately after the Russo-Japanese War, the late Mr. E. H. Harriman, the American railway magnate, concluded with Marquis Ito and Marquis Katsura a memorandum of

¹ Bland, *Recent Events and Present Policies in China*, *passim*. *Far Eastern Review*, Apr., 1910, pp. 526-9; Nov., 1909, pp. 228-9; Feb., 1909, pp. 294-9. *Jour. of the Amer. Asiatic Assn.*, Feb., 1910, pp. 4-7; Sept., 1910, pp. 232-243.

agreement for a joint American-Japanese ownership and working of the South Manchuria Railway. This joint working scheme, to be financed with American capital, was to form a link in Mr. Harriman's projected round-the-world transportation system. But when the Japanese statesmen, fully appreciating the tendency of world politics in the future, wanted to nullify what they had promised Mr. Harriman, they put the blame upon the Chinese Government by duly informing Mr. Harriman that the Chinese Government would not consent to the admission of American capital into the South Manchuria Railway system, since they desired themselves to join the Japanese in working it. As a matter of fact, China was kept absolutely ignorant of Mr. Harriman's proposals. Contrary to the Japanese statements, as we shall see, China was endeavoring to enlist American capital for the development of Manchuria.

In 1906, Russia had also at one time approached American capitalists with an offer to sell the Chinese Eastern Railway.

In August, 1907, Mr. T'ang Shao-yi, appointed Governor of Feng Tien, endeavored to enlist the active sympathy and support of the United States and Great Britain by offering opportunities for railway construction to American and British capitalists and contractors. Mr. T'ang suggested to Mr. W. Straight (U. S. Consul-General at Mukden, now president of the American Asiatic Association) that a Manchurian Bank with American capital be formed to act as the financial agent of the Government of Manchuria, and, in co-operation with Messrs. Pauling & Company, of London, to undertake the construction of a line from Hsinmintun to Aigun, together with other enterprises, "for the development of commerce and industry of Manchuria," with which, under the Portsmouth Treaty, Russia and Japan had agreed not to interfere. The project was delayed by the financial panic of 1907 in the United States.

After the panic, in the summer of 1908, Mr. Straight carried with him to Washington a memorandum, signed by the Governor of Mukden, which was to form the basis of negotiations for a loan of £20,000,000, for the establishment of the Manchurian Bank. Meanwhile, an agreement was reached between Lord French representing Messrs. Pauling and Company, Mr. J. O. P. Bland representing the British and Chinese Corporation, and the Manchurian Government for the construction of a railway running from Tsitsihar to Chinchow. The American capitalists, or, rather, the Manchurian Bank, was to undertake the extension of this line from Tsitsihar to Aigun—the total length of the line being about 750 miles. In November, before Mr. T'ang's arrival at Washington to discuss in person the details of this project, besides other matters, Messrs. Kuhn, Loeb and Company had declared to the State Department their willingness and readiness to finance the Manchurian Bank. By the death of the Emperor Kuang-su and the Empress Dowager, Mr. T'ang's mission failed, because of the lack of support from the Prince Regent who dismissed Mr. Yuan Shi-kai (then Grand Councillor), the chief supporter of Mr. T'ang's policies.

In December, the Russian Government again opened negotiations with certain New York bankers for the sale of the Chinese Eastern railway, provided, however, that Japan would agree to sell the South Manchuria railway. According to Mr. T'ang's statements China would welcome such action on the part of the Russian Government. It was hoped that an international syndicate might be organized to purchase both railways on behalf of the Chinese Government.

Mr. Knox, American Secretary of State, then addressed simultaneously the Chinese, British, German, Russian and Japanese Governments, proposing to authorize the organi-

zation of an international syndicate which would buy out the Russian and Japanese railway interests in Manchuria. At the same time Mr. Knox also suggested to the governments mentioned, with the exception of Russia, that if the Powers were unwilling to join in the general neutralization scheme they should at least unite in financing and constructing the Chinchow-Aigun railway. Learning this second proposal, the Russian Government suspected that the American Government was playing a double game. Russia and Japan then politely but firmly rejected Mr. Knox's proposals. The so-called neutralization scheme of Mr. Knox thus became a failure. The immediate result of this neutralization scheme was the formation of the Russo-Japanese entente (agreement signed on July 4, 1910) to divide the Manchurian and Mongolian interests between themselves.

The intentions of the United States Government were just. Its policy aimed at "taking the railways of Manchuria out of Eastern politics and placing them under an economic and impartial administration by vesting in China the ownership of the railways:" in other words, it wished to place Manchuria under an "international economic protectorate," pending such time as China could control it herself independently. Theoretically it seemed to be a fair and satisfactory arrangement but when tried in practice it required mutually altruistic aims and harmonious relations between the Powers.

Furthermore, Mr. Taft's Administration at Washington erred in placing the Chinchow-Aigun road in the same category in the neutralization scheme as the Chinese Eastern and the South Manchuria railways. They overlooked the fourth Article of the Portsmouth Treaty in which Russia and Japan had pledged themselves "not to obstruct any general measures, common to all countries, which China may take for the development of commerce and industry

in Manchuria." By this Article China was strictly entitled, at her discretion, to construct the Chinchow-Aigun line. For China's interests the two questions should have been treated separately.

When the neutralization scheme failed, the United States proceeded independently in the matter of the Chinchow-Aigun railway. But the Russo-Japanese entente had already become effective. Russia denounced the Chinchow-Aigun project as a design for attacking Russian territories in Eastern Siberia and Russia's "special interests" in Mongolia and Manchuria.

On the other hand, when the Japanese learned that negotiations for the loan agreement and the construction contract were in progress, their Government entered an emphatic protest, forbidding the Chinese Government to extend the Imperial Railways northwards from Hsinmintun, basing its prohibition on the Manchurian Convention of December 22, 1905, asserting that the extension would seriously compete with the South Manchuria road. Finally the proposition of the Chinchow-Aigun project also failed.

Judging from the attitude and the actions of the Japanese Government in those days, one need not have waited until the outbreak of the present World War to know that a clash between China and Japan in regard to the Manchurian railways is inevitable. Japan always desired to extend the life of the lease of the Peninsula and the South Manchuria railways. Article III of the Port Arthur and Talienwan agreement of March 27, 1898, provided that the duration of the lease should be twenty-five years, and Article VIII provided that the Chinese Eastern Railway should revert to China at the end of eighty years and might be repurchased at the end of thirty-six years. By the Treaty of Portsmouth, as we have pointed out, Russia's rights were transferred to Japan and were officially recognized by

the Chinese Government in 1905. The situation is this, namely, that in 1934, nineteen years hence, China may repurchase the line at its actual cost. But previous to this, in 1923, or eight years from date, the lease of the Liao-tung Peninsula, including the ports of Dalny and Port Arthur, expires. Japan's policy is to embark on various grand schemes of development and expansion so that she may control more effectively South Manchuria. But she has no funds. With the short-life lease she cannot negotiate in the financial markets of the world the necessary loans for the improvement of Dalny or Port Arthur. It is plain, therefore, that Japan must receive some assurance from China that the lease will be extended, in order that she may secure loans abroad.

The World War gives Japan the chance to achieve her purposes. Harsh demands are sent to Peking. Negotiations are now pending. The crisis comes. China's sovereign rights and integrity and the principles of the "open door" have been and are unmistakably threatened. Shall China yield or shall she fight? Had Mr. Knox's neutralization scheme been successful, such serious complication might not now be arising. Granted that Japan secures what she demands, the Manchurian questions which have become mixed up with the "open door," equal opportunities, sovereign rights, *etc.*, will still remain to be solved. Further dissensions and conflicts (probably armed conflicts) will be inevitable.

CHAPTER XI

CONCLUSION

WITH a period of over fifty years of railway development, China now has only 5,980 miles of railway in operation and a little over 2,000 miles under construction.¹ In comparison with countries such as the United States, Argentina, India, and others, the progress made in railway construction in China has been exceedingly slow, especially when we consider her vast territory and dense population. The reasons are many.

Opposition

At the very beginning when there was very little foreign influence, strong opposition to foreign improvements and national antipathy to innovations were quite common. Many writers attributed these objections to the superstitious fear of trespassing upon ancestral tombs. This superstition, however, has slight weight, with the lower and more ignorant classes only. Of course, there exists among all people in the world a strong prejudice against any innovation, but this prejudice can be, and has been, easily overcome whenever the innovation gains official support and encouragement.

The opposition to railway construction from the educated and official classes deserves more serious consideration.

¹ Up to the early part of 1914, China Proper has 5,980 miles of railway in operation and 2,065 miles under construction. In other words, she has .03 miles of line to every 100 square miles of country and .18 miles to every 10,000 inhabitants. *China Year Book*, 1914, p. 215.

Again, here, many writers have blamed the short-sightedness of these classes for preventing the general enlightenment of the country in order that they might retain their own prerogatives and power. These writers overlook the fact that the social, political and economical systems of China have been fully adjusted and were crystallized centuries ago. Naturally, it is not to be expected that these people would adopt without hesitation or inquiry the Western systems which were new and untried. Of course, those officials who were ultra-reactionary in tendency and who discouraged the introduction of railways should bear the blame for delaying the progress of railway construction.

It was the labor question which brought from the intelligent people of China the most serious objections to the introduction and development of rapid transportation. The railway throws the old means of transportation into disuse. It was feared that the boatmen, the carters, the packmen, and the porters would be deprived of their means of support and existence. This fear was manifested by the junk men of the Peiho River, the inhabitants of Tungchow, and the carters of Tientsin and Peking. This led some intelligent officials and merchants to the belief that what China needed was not condensation of work but expansion; in other words, not an increase in the working capacity of man by substituting machinery, but a sufficiency of work for the normal capacity of man's unaided hands. This may be true in some industries in China but not in railway transportation. At the very beginning it was true that some of the boatmen, carters, and others were affected, as in the case of the Government Railways of North China, but this was soon adjusted. In course of time the fears of the ruinous competition of the railway were found groundless as had been discovered in other countries. The railway, instead of decreasing, really increased the employment of

these laborers in transporting goods at higher wages by diversifying and developing new means of trade. Now, hostility from these people who are still making their living by old methods of transportation has practically disappeared.

In some cases, however, hostility to railways was caused by the shameful maltreatment of the laborers by the foreigners who took charge of the actual work of construction.

There was also complaint that the people were not willing to part with their land. China is a country of small landowners. It is not to be denied that it requires time to deal with them in order to obtain the necessary land for the right of way, but this difficulty can be, as it has been, adjusted by a fair valuation and honest dealing.

All the cases of opposition were found to arise almost entirely within the first period of railway development in China. Later, when the people became more familiar with this new system of transportation, almost all the unreasonable objections were withdrawn.

Hindrances

It is the problem of delay in railway construction that should be seriously considered. "Dirty politics," internal and international, has been the chief factor causing grievous retardation to railway development in China. Before the demarcation of their respective spheres of interest, each government of the Powers concerned protested against others' activities in certain parts of the country and endeavored to place obstacles in the way of any enterprise of its opponents. When the question of their respective spheres of special activities in different fields had been settled, official banking groups were designated by the different governments to exploit the country. Each group had practically a monopoly to undertake railway construction. Every one

of them had its hands too full of concessions which were, therefore, unduly delayed in fulfilment. The unscrupulous concessionaires took advantage of a weakened government to secure more than their due. Naturally an awakened people will object to the sacrifice of public interests under the pretence of development; hence the stubborn hostility to foreign concessions, and hence the delay in almost every case by months and even by years of the conclusion of loan agreements.

Working hand in hand with these political groups were the so-called syndicates, speculators, groups of men and of interests primarily not associated with railway construction, coming into the country to exploit "flowery Chung Hwa," by raising to an absurd figure the capital cost of the railways built. According to Mr. G. B. Rea's analysis of the railway situation in China,¹ the average cost of railways built under foreign loan agreements is \$45,000 gold per mile, while serviceable railways can be constructed and equipped for \$20,000 to \$30,000 gold per mile when built without foreign interference.

Furthermore, the Government had no effective control over these syndicates. The result was that the syndicates were permitted to float loans without first submitting to the Government definite surveys and construction tenders, which would have afforded a check on capital expenditures

¹ Mr. Rea's conclusion of his famous analysis is briefly as follows: China could more than double her railway building if unmolested in the administration of her affairs. The same amount of money would be expended, while the orders to foreign manufacturers for cars, locomotives and railway supplies would be doubled. What the bankers, purchasing agents, and staff employees would lose would be repaid to the foreign manufacturers ten times over, and in the end bring just as much profit to the banks as though they held out for the continuance of a system in which they are at present the greatest beneficiaries. *Far Eastern Review*, Nov., 1909, pp. 215-227.

and would have made the concessionaires and not the Government liable for any expenditure not expressly specified in the final agreement. All the above hindrances were chiefly caused by the international jealousies of the great commercial Powers and the short-sightedness of the foreign financiers.

We now come to the internal retarding forces which have blocked the progress of the railway, and which should be more seriously taken into consideration than the external forces. First of all, we find the enormous defects of the old order of things, the constant change of policies and the vacillation of the old Government, causing irritating friction with the people. The outcome of these was the hot-headed agitation against foreign enterprises and government ownership of railways. Such an extreme attitude, assumed by the radical elements of the people, destroyed that mutual confidence which is so necessary to progress and naturally retarded the very process of evolution or development in railway as well as in other industries.

This unsettled state of affairs in the country accounts for a great deal of the delay in railway construction. The famines, the brigandage and the frequent rebellions, as resultants of the economic pressure, the over-population and the lack of food supply, have been the chief causes of unrest in the country. These things paralyze the commerce and industry of a country, put the people in destitution and absorb the surplus energy. One of the results of this business paralysis was the lack of capital for investment in the railways, hence the failure of the private enterprises; another result was the loss of revenues and credit, hence the Government had to accept foreign loans under humiliating conditions, and hence its reluctance to launch any new or large railway enterprise.

The people of China possess mental power of organiza-

tion. Their habits of thinking systematically and of acting methodically lead directly to organized effort. The mutual aid associations, the temperance societies, and the secret social fraternities are notable illustrations of this organized effort. Above all, they have the more definite commercial and labor combinations. The provincial clubs or "guilds" are organized to control the market, regulate prices and avoid cut-throat competition. The labor combines are formed to promote the interest of the workingmen. But the deficiency of skilled workmen and professional experts in every line of modern improvements, the virtual absence of the modern mechanism of money and stock exchanges, and the ignorance of new corporation systems have tied the hands of many vigorous railway promoters, entrepreneurs and financiers.

Dangers

The aggressive policy (the policy of economic and geographical gravitation) of Russia and Japan as the outgrowth of military aristocracy in those lands, has caused clashes and hostility between these powers and other countries who have interests in the Orient. We have seen that by a series of exceedingly shrewd moves, Russia had secured predominant influence in Peking, had extended her railways into Manchuria, had assumed virtual control over a large part of its territory, and thus had led to the great war in the Far East at the dawn of this century. After the revolt of the Khalka Mongol princes, Russia again manifested her "forward policy," inaugurated by the Russo-Japanese entente (July 4, 1910), by demanding the autonomy of Mongolia, by making loans at the same time to the provisional government of North Mongolia and by securing provisions for railway construction in that vast region. After Japan

and Russia united to veto the proposed construction of the Chinchow-Aigun railway, the Russians suggested at once to the Chinese Government, as an alternative scheme, the construction by China of a railroad from Kalgan to Urga with the intention of connecting with the Siberian Railway via Kiakhta, thus shortening the distance between Irkutsk and Peking by about 800 miles. This is no doubt a costly and strategic undertaking. Russia wanted China to do it. What was her intention? She intended to repeat the same old trick she had played in Manchuria. In addition to this scheme the Russian Government has also cherished the idea of constructing railways from Taskkent to Kashgar, and from Bisk to Chuguchak. By means of these prospective railways Russia aims to secure the geographical and economic gravitation of North Mongolia and possibly the New Dominion.

Japan wants to stay permanently in Manchuria. She has adopted the well-known colonization method of "peaceful penetration" by making use of the railway and the bank. Her uncompromising veto of the Chinchow-Aigun project and her present unreasonable demands, as the outcome of the World War, which she has pressed upon China, prove conclusively that Japan is determined not only to close the door to equal opportunities in South Manchuria but also to prevent the establishment of any vested interests other than her own throughout the Chung Hwa Republic. The ambitious and unscrupulous statesmanship of the military-aristocratic class of the Japan people has made Japan a formidable factor in international diplomacy. She attempts to undermine the influence and the interests of other Powers in China. Can she do it single-handed? Here is the danger of a possible future conflict—a conflict sure to cause humiliation to China.

Railway loans floated by China have in the past gener-

ally received a government guarantee and have been secured by first mortgages or by the pledge of provincial revenues as security. The proposed hypothecation of China's internal revenues for the loans has involved important political complications. Whenever internal disturbances may arise or whatever other unforeseen causes may come up to impair the due payment of interest or the repayment of principal, China's sovereignty will be at stake.

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VITA.

THE author was born in Canton, China, September, 1885. He attended the Tangshan Railway and Mining College, North China, from 1906 to 1910, when he was sent by the Government to the United States to study. He attended the University of Illinois, receiving the B. S. degree from that institution in 1912. He studied Economics at the University of Pennsylvania during the year 1912-13, doing seminar work with Professor E. R. Johnson. He received the M. A. degree from Pennsylvania in 1913. As a student of the Department of Political Economy at Columbia University, 1913-15, he studied under Professors Seligman, Clark, Seager, Mussey, Chaddock, Giddings, Tenney, Robinson and Hirth, working in the seminars of Professors Seligman and Seager.

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